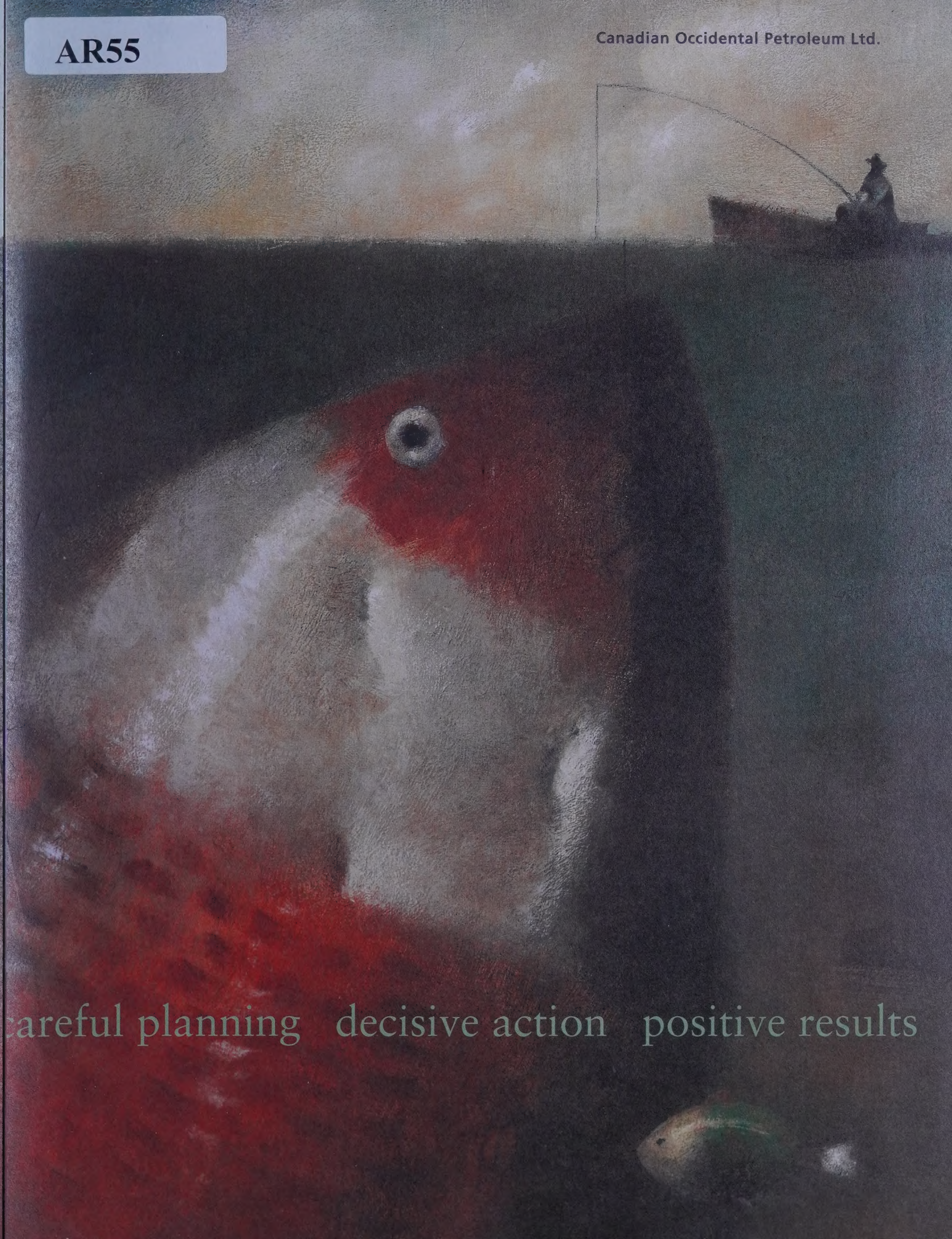
1996 ANNUAL REPORT

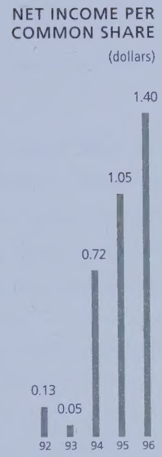
Canadian Occidental Petroleum Ltd.

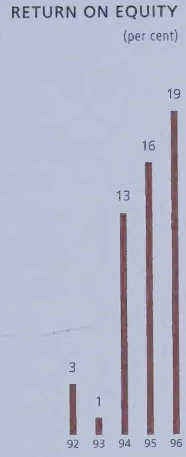


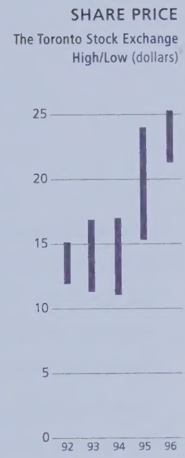
careful planning decisive action positive results

CANADIAN OCCIDENTAL PETROLEUM LTD. (CanadianOxy) is a successful international energy and chemicals company.

Our record demonstrates the quality and depth of our resources. We plan carefully, act decisively and the results are clear. CanadianOxy is highly profitable, financially solid and committed to growth.







HIGHLIGHTS	1996	1995	1994
(dollar amounts in millions except per share data)			
FINANCIAL			
Net Sales	$ 1,362	$ 1,180	$ 1,015
Net Income	$ 190	$ 141	$ 96
Per Common Share (1)	$ 1.40	$ 1.05	$ 0.72
Funds Flow from Operations	$ 766	$ 630	$ 493
Per Common Share (1)	$ 5.64	$ 4.68	$ 3.67
Capital and Exploration Expenditures	$ 546	$ 344	$ 264
Acquisitions	$ 86	$ 130	$ 5
Common Shares Outstanding (millions) (1)	136.2	135.0	134.3
OPERATIONS			
Daily Production			
Liquids (thousand barrels)	123.1	119.1	105.0
Synthetic Crude Oil (thousand barrels)	14.5	14.6	13.8
Natural Gas (million cubic feet)	243.7	222.3	241.4
Sodium Chlorate Production			
(thousand short tons)	349	278	225
Proved and Probable Reserves			
Liquids (million barrels)	389.1	371.3	408.1
Synthetic Crude Oil (million barrels)	191.8	174.4	179.7
Natural Gas (billion cubic feet)	823.5	832.2	827.4

(1) Share and per share amounts reflect the two for one stock split which was effective May 28, 1996.

In this report, unless otherwise specified, dollar amounts are stated in Canadian dollars and production and reserve numbers represent CanadianOxy's working interest before royalties. Natural gas is converted to oil equivalent at the rate of six thousand cubic feet = one barrel of oil. Divisional funds flow from operations is presented before corporate items and income taxes.

Certain statements in this report constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended. By their nature, such statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied. Readers should refer to the Company's 1996 Annual Report on Form 10-K for a discussion of the risks and uncertainties.

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to our shareholders

1996 HIGHLIGHTS

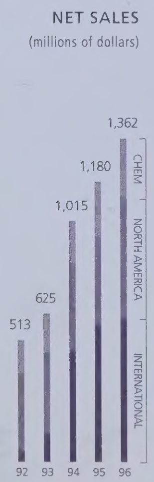
- → return on shareholders' equity reached almost 19 per cent reflecting our commitment to shareholder value
- → funds flow from operations increased 22 per cent to $766 million ($5.64 per share)
- → net income increased 35 per cent to $190 million ($1.40 per share)
- → oil and gas production increased over four per cent to 178 thousand barrels of oil equivalent per day
- → our prospect portfolio was significantly enhanced with a 14 per cent increase in net undeveloped acreage to over nine million acres
- → capital investment increased 33 per cent to $632 million

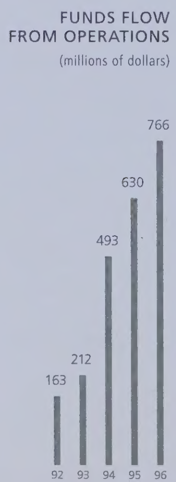
ANOTHER RECORD YEAR With great pleasure we report that for the third consecutive year Canadian Occidental Petroleum Ltd. established new records for both financial and operating performance. This success stemmed from production growth along with attractive prices in oil and gas, the continued growth of our Chemicals business and the success of an ongoing continuous improvement program in controlling costs.

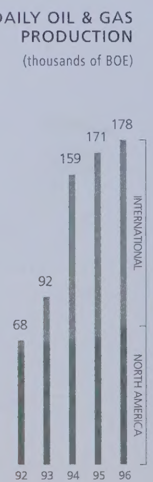
ENHANCING CORE ASSET VALUE In Canada, our activities resulted in the addition of significant value and low cost reserves. We commenced exploration and development of our heavy oil joint venture lands in West Central Saskatchewan where our experience and technical skills resulted in the addition of six new pools. We are confident that this project will become a major source of production volumes and cash flow for our Canadian operations over the course of our five year exploration and development plan for the area.

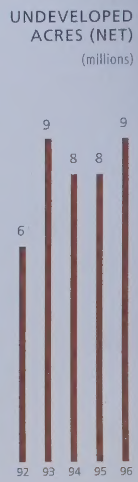
In the United States, our ongoing exploitation and exploration activity in the Eugene Island area of the Gulf of Mexico resulted in significant production growth. Capitalizing on our expertise and extensive database of 3D seismic information, we acquired 16 new exploration blocks at federal and state lease sales and invested $66 million to purchase two producing fields with significant exploitation upside in the Vermilion area of the Gulf of Mexico. We will continue to aggressively explore and exploit all of these assets in 1997.

Finally, in Yemen we established a new record for production from the Masila Fields and commenced an extensive seismic program designed to further improve our understanding of the size and structure of the major features of the Masila Block. As a direct result of the evaluation of early information from this program, we recently drilled three new wells in the Tawila area with encouraging results.









INTERNATIONAL GROWTH OPPORTUNITIES A key component of our overall strategy is developing International opportunities.

We acquired three blocks in the Putumayo Basin of Colombia containing multiple, medium risk exploration prospects. Although Putumayo is a producing basin, minimal exploration activity since the early 1970's has created the potential for unlocking significant reserves through the application of new technology. It may also create an opportunity to participate in the redevelopment of an existing field using current exploitation techniques. Existing infrastructure ensures new production can be brought on stream quickly. With multiple avenues for success, this project exemplifies the type of thinking that goes into CanadianOxy's International business development strategies.

Offshore Nigeria, development of the Ejulebe Field on Block OML 109 was delayed in order to complete our assessment of the exploration potential in the vicinity of the field. Although two unsuccessful exploration wells were drilled in 1996, a third exploration well will be drilled in 1997 and Ejulebe is expected to commence production in early 1998.

High impact exploration is another strategy we believe will lead to International long term growth. Success requires prudence, focus and a sufficient number of opportunities to allow experience, economies of scale and probabilities to work in our favor. We are building a critical mass of prospects in South East Asia. We added four new blocks in Indonesia — Seram, Merangin, Karang Besar and Maratua — to our portfolio. We tested two others with wells — Kai, in the Arafura Basin of eastern Indonesia and 12W, off the south coast of Vietnam. Although neither found commercial quantities of hydrocarbons, both encountered working petroleum systems — source rock, reservoir rock and trapping mechanisms — improving the potential that future work in the area will lead to success.

Our investment in the future has been accelerating in recent years as we attracted staff with the knowledge and experience to identify and capture opportunities in South America, South East Asia and other frontier areas. In 1997, the focus of our International capital program will shift from business development activities to exploration drilling for new reserves.

RESERVE REPLACEMENT COSTS The ratio of capital invested in oil and gas activities to reserve additions provides a snapshot of an oil and gas producer's success over time. CanadianOxy's annual proved reserve replacement costs reached a low of $1.19 per barrel in 1991 following the discovery of significant reserves in Yemen. Although the North American Division has achieved excellent results throughout the 1990's, our overall costs increased in the ensuing years as we invested in the facilities and infrastructure to produce Masila crude, reduced capital spending to repay debt and directed capital spending to capture new International opportunities. As we move forward in the exploration cycle and are successful with the drill bit, we expect our reserve replacement costs will decline significantly.

A LEADER IN THE BLEACHING CHEMICALS INDUSTRY We have positioned our Chemicals business as a leading North American producer of sodium chlorate. With the expansions of our Brandon, Manitoba and Bruderheim, Alberta facilities, we completed a program started in 1995 that enabled us to to double our sodium chlorate production capacity.

1997 GOALS

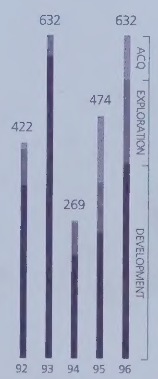
→ invest approximately $650 million in projects designed to grow net asset value

→ replace production with new reserves from North America and Yemen

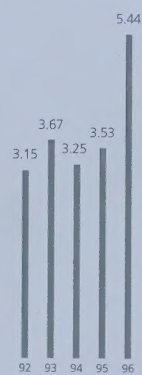
→ drill 12 International exploration wells, testing over one billion barrels of oil equivalent of potential reserves

→ continue to earn first quartile returns on shareholders' equity

CAPITAL EXPENDITURES
(millions of dollars)



PROVED & PROBABLE RESERVE REPLACEMENT COSTS
($/BOE - five year average)



positive results

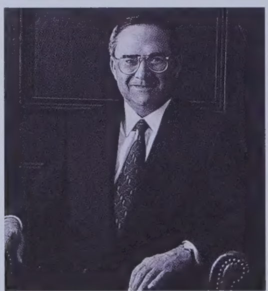
CanadianOxy is now among the three largest manufacturers of sodium chlorate in North America. We now hold 20 per cent of the North American market share for sodium chlorate. Our overall cost structure is among the lowest in the industry and our facilities operate at high capacity utilization rates.

OPERATING AND FINANCIAL HIGHLIGHTS Worldwide oil and gas production increased four per cent, reaching a record 178 thousand barrels of oil equivalent per day. Strong oil prices and attractive North American natural gas prices combined to lift net sales 15 per cent, while production cost increases were limited to four per cent. As a result, net income increased 35 per cent to $190 million ($1.40 per share) and funds flow from operations increased 22 per cent to $766 million ($5.64 per share).

Capital investment increased $158 million to $632 million. Operating cash flow in excess of capital requirements and dividend payments was directed to debt repayment. At the end of 1996, CanadianOxy's net debt was just 60 per cent of annual funds flow from operations or $463 million. In recognition of our financial performance, we increased our annual dividend to $0.30 per share during 1996.

OUR COMMITMENT Our relationships with the communities affected by our operations are of prime importance to us. We attempt to anticipate environment, health and safety issues and to expand our programs and improve our policies and action plans in these areas on a continuous basis. We believe the future will require even greater involvement on the part of corporations to achieve economic development which is environmentally friendly and ensures the health and safety of employees and the public. We are part of and strongly support voluntary initiatives by industry to achieve these public policy objectives.

PERFORMANCE We are proud of the performance of the people who make up CanadianOxy. Over the past four years, we have built a very aggressive and creative work-force who are capable of competing anywhere in the world. It is their combined skills and commitment and the financial strength of this enterprise which sets the tone for a very exciting future.



DR. RAY R. IRANI
Chairman of the Board

DAVID A. HENTSCHEL
President and Chief Executive Officer

CORPORATE GOVERNANCE

The Board of Directors of CanadianOxy takes seriously its duties and responsibilities with respect to principles of good corporate governance. In this regard, CanadianOxy supports and conducts its business in accordance with the guidelines adopted by The Toronto Stock Exchange. A report of our compliance with the guidelines may be found in the Proxy Statement and Information Circular.

As of October 1, 1996, David R. Martin retired as President and Chief Executive Officer of Occidental Oil and Gas Corporation and resigned from the Board of Directors of CanadianOxy. Mr. Martin contributed significantly to our success during his 13 years of service and we wish him well during his retirement.

At the Annual General and Special Meeting of Shareholders in May 1997, we have three Directors who will be retiring after serving a combined total of 50 years. Jack Robertson joined the Board in 1972; Jack Rhind in 1984; and Bram Garber in 1987. Their extraordinary service to the Board has been commendable and very much appreciated. We thank them and wish them well in the future.

John Feick was elected as a Director at the Annual General Meeting in 1996. Kevin Jenkins and John Willson were appointed as Directors by the Board in late 1996. Both will stand for election at the Annual General and Special Meeting of Shareholders in May 1997.

March 4, 1997
Calgary, Alberta

careful planning

OUR BUSINESS PLANS FOCUS ON THE VALUE TO BE CREATED BY OUR ACTIVITIES RATHER THAN JUST THE OPERATING IMPACTS

We ensure near term growth by maximizing the value of our core assets and capturing new exploitation opportunities through acquisitions and low risk exploration. Prudent investment in high impact exploration offers the potential of significantly increasing the value of our shareholders' investment over the long term.

CanadianOxy is now among the three largest manufacturers of sodium chlorate in North America. We now hold 20 per cent of the North American market share for sodium chlorate. Our overall cost structure is among the lowest in the industry and our facilities operate at high capacity utilization rates.

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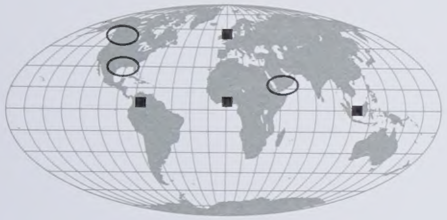
HOW WE DO BUSINESS

FOCUS ON VALUE CREATION
- → maintain high investment standards
- → access business opportunities that provide us with competitive advantage
- → develop and expand our market niches

ENSURE NEAR TERM VALUE GROWTH
- → maximize value of core producing assets
- → acquire new exploitation opportunities through acquisitions and low risk exploration

EXPLORE FOR LONGER TERM VALUE GROWTH
- → prudent program of high impact exploration



WHERE WE DO BUSINESS

Three regionally focused business units:

NORTH AMERICAN OIL AND GAS

INTERNATIONAL OIL AND GAS

○ Three growing core oil and gas areas are responsible for the majority of our current production and low risk growth:

YEMEN
CANADA
UNITED STATES

■ We are concentrating resources and capital for future value growth in four oil and gas focus areas:

SOUTH EAST ASIA
SOUTH AMERICA
AFRICA
NORTH SEA

CHEMICALS
We manufacture and market sodium chlorate, caustic soda and chlorine from facilities strategically located throughout North America.

CANADIAN OCCIDENTAL PETROLEUM LTD.

our business

NORTH AMERICAN DIVISION

The North American Division consists of three units: Canadian Oil and Gas, United States Oil and Gas (CXY Energy) and our 7.23 per cent interest in Syncrude Canada Ltd.

The Division contributes 43 per cent of total Company oil and gas production and 34 per cent of divisional funds flow from operations.

INTERNATIONAL DIVISION

The International Division consists of exploration and production operations in Yemen, the North Sea and Ecuador. We also have ongoing high impact exploration programs in Indonesia, Vietnam, Colombia, Nigeria and Pakistan and hold land in Romania and Kazakstan.

The Division contributes 57 per cent of total Company oil and gas production and 56 per cent of divisional funds flow from operations.

CHEMICALS DIVISION

The Chemicals Division is a North American leader in sodium chlorate production from six strategically located facilities. We also manufacture chlorine, caustic soda and muriatic acid from our chlor-alkali facility in North Vancouver.

The Division has grown rapidly and generates 10 per cent of divisional funds flow from operations.

our progress

North American Division
- → increased funds flow from operations by 59 per cent to $326 million
- → increased production by nine per cent to over 76 thousand barrels of oil equivalent (BOE) per day
- → added 48 million BOE of proved reserves
- → attained five year proved and probable conventional reserve replacement cost of $5.06 per BOE
- → replaced 180 per cent of conventional production
- → increased net undeveloped acreage by 42 per cent to 967 thousand acres
- → drilled 138 net development wells in North America with an overall success rate of 95 per cent

International Division
- → increased funds flow from operations by five per cent to $531 million
- → established new divisional production record of 102 thousand BOE per day and new Yemen production record of 92 thousand barrels of oil per day
- → captured eight new exploration blocks — Indonesia (four), Colombia (three) and Nigeria (one)
- → drilled successful exploration wells on Block 15 in Ecuador and confirmed hydrocarbon potential on Block 12W offshore Vietnam
- → commenced exploration of Block OML 109 in Nigeria
- → commenced transport of third party gas through CMS Pipeline in the North Sea
- → drilled three high volume delineation wells in the Tawila Field indicating a potentially larger aereal extent

Chemicals Division
- → achieved record financial and operating results
- → increased production of sodium chlorate 26 per cent to 349 thousand short tons
- → increased funds flow from operations 22 per cent to $90 million
- → increased operating profit 38 per cent to $66 million
- → completed modernization and expansion of Taft, Brandon and Bruderheim sodium chlorate facilities increasing total production capacity to 447 thousand short tons per year
- → constructed sodium chlorate packaging facility allowing the Division to access international markets
- → maintained high operating rates despite market weakness

our plans

North American Division
- → increase investment in exploration and development by 15 per cent to $280 million
- → increase production approximately 10 per cent
- → evaluate 25 plus exploration prospects in Western Canada and the Gulf of Mexico
- → aggressively develop the 1996 West Central Saskatchewan heavy oil joint venture discoveries
- → position Canadian operations for anticipated improvement in Canadian natural gas markets
- → commence exploitation of Vermilion Blocks in the Gulf of Mexico
- → continue exploitation of Eugene Island and West Delta areas in the Gulf of Mexico
- → maintain five year proved reserve replacement costs in current range
- → reduce unit operating costs

International Division
- → maintain high rates of production in Yemen
- → complete development of Ejulebe Field on Block OML 109 in Nigeria
- → commence pre-development of Cavendish Gas Field in the North Sea, targeting first production in late 1998
- → drill 12 major exploration wells testing over one billion BOE of potential reserves
- → commence geological and geophysical evaluation of Paramo Este and Oeste Blocks in Putumayo Basin of Colombia and Seram Block in Indonesia
- → capture new exploitation/exploration opportunity in North Africa
- → expand business development activities in South East Asia and South America

Chemicals Division
- → focus on maximizing operating and financial performance
- → increase sodium chlorate production approximately 12 per cent
- → increase chlor-alkali production approximately six per cent
- → pursue offshore market opportunities for sodium chlorate sales
- → develop new opportunities in existing markets
- → continue diversification into higher margin chlorine markets

program for action

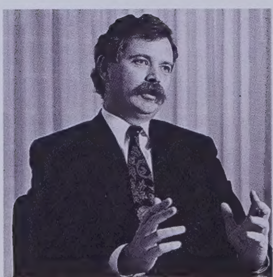
NORTH AMERICAN DIVISION

"Our Division is composed of conventional exploration and production businesses in Canada and the United States and a 7.23 per cent interest in Syncrude, all of which have outstanding track records of growth...

We have disposed of non-core assets in Canada and the United States so that we can concentrate on properties which have substantial upside and where we have strategic advantage. We are expanding our core operations through grass roots initiatives and acquisitions, and are capitalizing on technology to improve success rates and maximize value additions.

Finally, we are expanding our horizons — evaluating the potential to participate in deeper water opportunities in the Gulf of Mexico and adding extensively to our undeveloped acreage position in both Canada and the United States.

The proof that our plans are working shows in our results. Production and cash flow are growing rapidly and we're more than replacing production at low cost. We added real value for shareholders in 1996 and I'm confident that the trends we've established will result in continued value growth in the future."



CHARLIE FISCHER
Senior Vice-President,
North American Division

INTERNATIONAL DIVISION

"Since mid-1993, our strategy has focused on maximizing the productivity of the Masila Fields in Yemen and building our portfolio of International growth opportunities...

The response of the Masila Fields to our programs has been outstanding. The more we learn about these prolific fields the more opportunities we see to add further value through low risk exploration, infill drilling, pressure maintenance, waterfloods and the application of advancing technologies.

Our business development teams are concentrating on South East Asia, northern South America and Africa. Our business plan is to capture projects which offer multiple opportunities for success such as multiple targets on a single exploration block or a combination of exploration, development and exploitation opportunities in a given regional area.

1996 was a pivotal year. A number of the key contracts we had been working on were captured, establishing a critical mass of opportunities in each of our focus areas. In 1997, we will take the next step to convert opportunities into reserves and production. Our drilling budget is the largest since 1993 and I'm looking forward to the results of each of the 12 wells we have planned for the year."

WES DENSMORE
Senior Vice-President,
International Division

CHEMICALS DIVISION

"Sodium chlorate continues to provide us with substantial opportunity to grow our business...

In mid-1995, we commenced further expansion of our sodium chlorate business. This process culminated in October 1996 with the addition of over 34 thousand short tons of new capacity. CanadianOxy is now a major, low cost North American manufacturer and marketer of sodium chlorate and has an attractive position in the chlor-alkali business.

Reflecting our prudent capital program, our return on investment is in the top quartile in the chemicals industry.

Going forward, we are evaluating the potential to expand our chlorate business worldwide, while ensuring that existing assets provide adequate returns. This means developing new geographical markets by exporting product. To enhance this effort we have installed a special packaging facility at the Bruderheim plant. We will also be investigating opportunities in other industrial chemicals where we can capitalize on our marketing and manufacturing abilities and strengths."

TOM SUGALSKI
Senior Vice-President,
Chemicals Division

decisive action

Oil and gas exploration and development is our major impetus for growth. While risks are significant, the rewards for success are substantial. Prospects are being converted into value-creating projects in all regions.

overview

The North American Division is composed of conventional operations in Canada and the United States, and a 7.23 per cent interest in Syncrude Canada Ltd. which produces synthetic crude oil at its facility in Fort McMurray, Alberta.

In Canada, we have extensive conventional operations in Alberta, Saskatchewan and British Columbia. These include interests in 1,917 oil and 806 gas wells, six operated gas processing plants and 14 other associated facilities.

Through our wholly-owned subsidiary CXY Energy (CXY), we are a leading independent producer of oil and gas in the offshore Gulf of Mexico. Our interests include 216 oil and gas wells producing from 35 platforms on 29 federal offshore lease blocks and 224 oil and gas wells onshore.

capital The North American Division's growth reflects successful exploration, development and acquisition programs. In 1996, we invested $91 million in exploration, $153 million in development and an additional $86 million in acquisitions.

opportunity portfolio The North American Division's prospect portfolio was significantly enhanced with a 42 per cent increase in net undeveloped acreage to 967 thousand acres. Our inventory of undeveloped Canadian lands increased 46 per cent to 798 thousand net acres in 1996 with major additions in Saskatchewan and British Columbia.

case study

low risk exploration

WEST CENTRAL SASKATCHEWAN

" The Canadian operations are growing steadily by aggressively exploiting existing assets and capturing large, low to moderate risk exploration opportunities. "

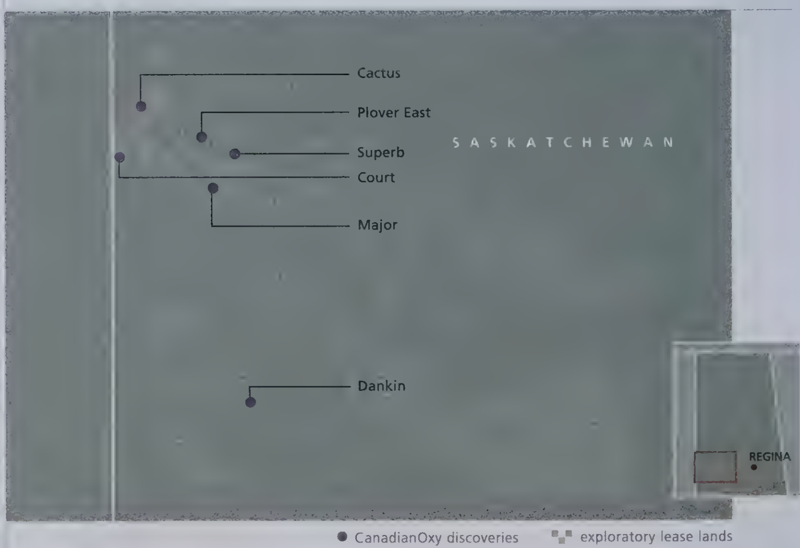
Graeme Phipps Division Vice-President, Canadian Oil and Gas

In late 1995, we acquired a 50 per cent interest in almost one million acres of under-explored, heavy oil prone lands in West Central Saskatchewan. Over the course of 1996, 19 exploration wells were drilled resulting in six new oil pools which are estimated to contain over seven million barrels of proved and probable reserves net to CanadianOxy. The two most significant pools were at Plover East and Superb.

At Plover East, two Bakken zone discoveries encountered 36 feet and 24 feet of net heavy oil pay, respectively, and established a large pool. These wells were production tested at flow rates of approximately 100 barrels per day each. Following an extensive 3D seismic program, we initiated a 41 well development drilling program, 29 of which were completed in 1996. We anticipate our share of production for 1997 to average approximately 1,200 barrels per day from Plover East.

At Superb, a discovery well encountered over 70 feet of net pay in an Upper Mannville zone channel. We are considering the application of enhanced recovery technology to develop this pool.

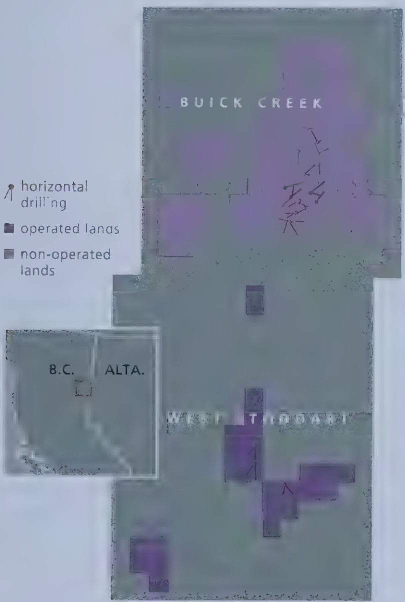
Under our five year plan for these under-explored lands, we will drill at least 40 exploration wells in 1997. Funds have also been allocated to acquire an additional 155 miles of 2D seismic and 18 square miles of 3D seismic information. We also plan to acquire additional offsetting acreage as new prospects are identified.



overview

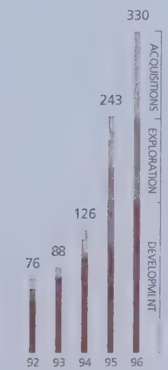
Our success at Buick Creek and West Stoddart provides a good example of how an acquisition combined with the innovative application of established and emerging technologies can create significant value growth.

In late 1994, we acquired a 25 per cent interest in a shut-in Doig light oil pool in the Buick Creek area of north east British Columbia. In less than two years, our aggressive exploration and development drilling program utilizing 3D seismic, single and multi-lateral leg horizontal wells and specialty drilling fluids has resulted in 1,500 barrels per day of light oil production for the Canadian operations. Part of the strategy supporting this acquisition was to capitalize on this experience by exploring for look-a-like pools along the play trend. An aggressive program identified and captured a number of prospects in the West Stoddart area south of Buick Creek.

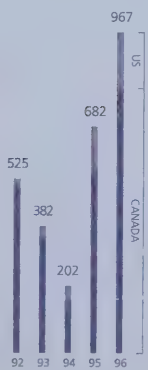


Three multi-lateral leg horizontal wells were drilled at West Stoddart during 1996 establishing significant oil potential. We are currently testing these wells and proceeding with development and construction of production facilities.

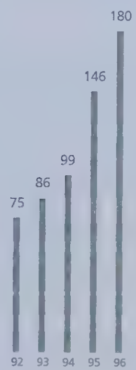
NORTH AMERICAN CAPITAL EXPENDITURES
(millions of dollars)



NORTH AMERICAN UNDEVELOPED ACRES (NET)
(thousands)



NORTH AMERICAN PROVED RESERVES
Annual Replacement Ratio Excluding Syncrude
(per cent of production)



In the United States, CXY's large 3D seismic database covering the shallow offshore Gulf of Mexico has motivated CXY to expand its undeveloped acreage position from 21 thousand net acres in 1992 to 169 thousand net acres at the end of 1996. CXY acquired 17,500 miles of 2D seismic data in deeper water and is evaluating opportunities in this area.

drilling We drilled 138 net development wells in North America with an overall success rate of 95 per cent. We also participated in 25 net exploratory tests resulting in 14 oil discoveries, three gas discoveries and eight dry holes. The two most significant of these discoveries were at Eugene Island Block 135 in the United States and Plover East in Canada.

conventional reserves North American reserves are growing at low cost. In 1996, Canadian proved reserve additions equaled 181 per cent of production while United States proved reserve additions equaled 180 per cent of production.

Canadian proved reserve replacement costs have been among the lowest in the industry over the past five years averaging $3.49 per barrel of oil equivalent for conventional reserves. United States costs are attractive relative to other Gulf Coast producers at U.S. $5.90 per barrel of oil equivalent.

production The North American Division's conventional reserve life index is 6.6 years for proved reserves and 8.7 years for proved and probable reserves.

overview

conventional operating costs North American operating costs averaged $3.79 per barrel of oil equivalent in 1996. We are among the lowest cost producers in the Gulf of Mexico, averaging $3.85 per barrel of oil equivalent. Continuous improvement initiatives are reducing costs in Canada which averaged $3.70 per barrel of oil equivalent in 1996.

funds flow from operations 1996 was the most successful year in the history of the North American Division. Production growth combined with strong world oil prices and attractive gas prices in the United States Gulf Coast market resulted in a 59 per cent increase in funds flow from operations to $326 million.

alternate fuels Synthetic crude oil production is anticipated to increase to approximately 15,300 barrels per day with new mining and delivery systems being introduced during 1997. Unit operating costs improved for the fourth year in a row, declining from $16.08 per barrel in 1993 to $13.69 per barrel in 1996. Reduced operating costs and higher world oil prices more than offset a production decline from mechanical problems in the plant, resulting in a 46 per cent increase in funds flow from operations to $51 million.

case study

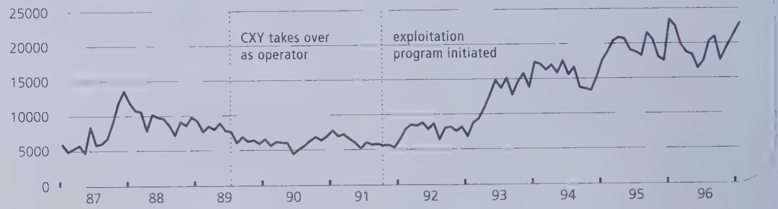
acquisition/exploitation

EUGENE ISLAND

" In the United States, CXY Energy's focus is the offshore Gulf of Mexico. One of CXY's strengths is exploiting older fields using 3D seismic data and low cost development technology. We have grown steadily earning excellent returns by identifying and developing opportunities in mature fields."

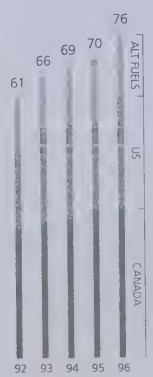
Doug Otten President, CXY Energy

CXY's most valuable assets are the Eugene Island Blocks, offshore Louisiana. CXY acquired control of three blocks in 1989 and initiated an aggressive development program in 1991. Over the course of this project, we have drilled 23 successful wells and added over 34 million barrels of oil equivalent of reserves at an average cost of U.S. $3.34 per barrel. Production from these Blocks has increased from 800 barrels of oil and 11 million cubic feet of gas per day to over 8,100 barrels of oil and 39 million cubic feet of gas per day.

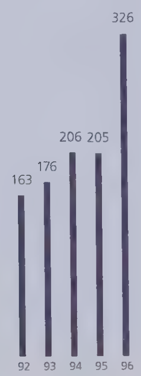


Based on this experience, CXY acquired a 100 per cent interest in one and a half adjacent blocks in late 1995 and commenced exploitation in early 1996. To date, four wells have been drilled, contributing approximately 2,000 barrels of oil and 28 million cubic feet of natural gas production per day to field totals. Based upon these results, our assessment of the remaining potential of these blocks indicates higher reserve potential and we plan to drill five additional wells on these new blocks in 1997.

NORTH AMERICAN DAILY OIL & GAS PRODUCTION (thousands of BOE)



NORTH AMERICAN FUNDS FLOW FROM OPERATIONS (millions of dollars)



ALTERNATE FUELS OPERATING COSTS (dollars per barrel)

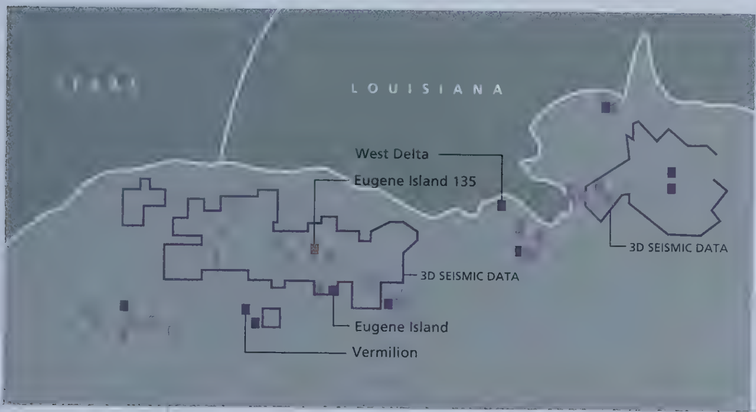
case study

VERMILION | acquisition/exploitation

We have acquired close to $130 million of strategic assets in the Gulf of Mexico over the past two years to complement our operational strength of exploiting mature fields.

In October 1996, we acquired a 100 per cent interest in four blocks in the Vermilion area of the Gulf of Mexico. At year end, total field production was about 30 million cubic feet and 300 barrels of condensate per day. These blocks contain two fields which were discovered and developed in the mid-1970's. However, field records indicate little additional work has taken place since that time. Significant development potential has been identified through evaluation of well performance information and 3D seismic data. We believe we can capitalize on our exploitation expertise to achieve results similar to those we recorded at Eugene Island and we are confident further opportunities will be identified as we continue our evaluation.

Our 1997 exploitation program for Vermilion, which is aggressive, consists of drilling or side-tracking five wells, recompleting eight wells and installing additional field compression to increase total field rates.



■ producing blocks
■ exploration blocks
■ recent activity

our plans

CANADA

→ continue to optimize value of mature core assets focusing on cost reduction and increased facility utilization

→ grow oil production in near term through innovative application of new technology and active exploration and development programs

→ increase inventory of gas opportunities to match the timing of improved transportation access to United States markets

→ maintain our track record for low cost reserve replacement

UNITED STATES

→ increase asset value and production levels through exploration, acquisitions and continued development of producing oil and gas assets

→ expand 3D seismic database and acreage position in Gulf of Mexico

→ increase investment in exploration and development

→ expand focus to assess potential of deeper water opportunities

case study

YEMEN

exploitation/low risk exploration

overview

The International Division's core production comes from the Masila Fields in Yemen where our activity is aimed at increasing our reserves in order to sustain production levels as far as possible into the future.

Our remaining International oil and gas assets are located in four primary areas. In the North Sea we produce natural gas in the Southern Gas Basin and are actively evaluating new exploitation opportunities in the Central Basin. In South East Asia, northern South America and Africa our focus combines acquisition and exploitation opportunities with high impact exploration for significant new oil and gas reserves.

capital Since completion of the Masila Field development in 1993, capital spending has been largely directed toward developing and exploiting our existing assets and acquiring the staff, technical data and undeveloped land inventory which will provide the basis for growth in South East Asia, northern South America and Africa. In 1997, the focus of our capital budget will be on exploration drilling as we prepare for the next phase of long term growth.

" As the project enters a more mature phase, efforts are being made to maintain high production rates and manage costs. This combination will continue to add significant value to CanadianOxy in years to come." Larry Murphy Region Vice-President, Europe/Africa/Middle East

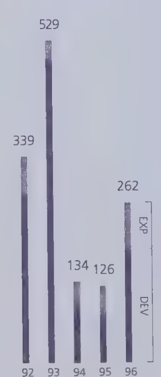
Yemen is our largest single source of crude oil. For the fourth consecutive year, Yemen operations reported increased production, setting a new record of 177 thousand barrels per day compared to 174 thousand barrels per day in 1995. CanadianOxy has a 52 per cent interest in these fields and is the operator.

The Masila Fields in Yemen contain prolific reservoirs. We drilled a total of 14 successful development wells in 1996, adding approximately 25 thousand barrels per day of incremental production capacity. We also expanded the power plant providing the electricity required to operate more and larger submersible pumps allowing us to expand the central processing facility as total fluid volumes grow.

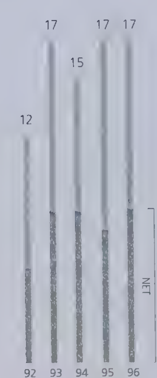
Our activity in Yemen is aimed at sustaining high production levels and our field developments continue to provide encouraging indications of future potential in this regard:

- in the Sunah area, the Shuqra zone was further delineated and although additional work is required, it appears to have the potential to be a substantial reservoir;
- in the Hemiar area, horizontal wells are proving 10 to 20 times more productive than vertical wells indicating these wells may be recovering more oil than had originally been anticipated by reservoir simulation studies; and
- production in the Tawila area continues to expand indicating a potentially larger aereal extent to this field.

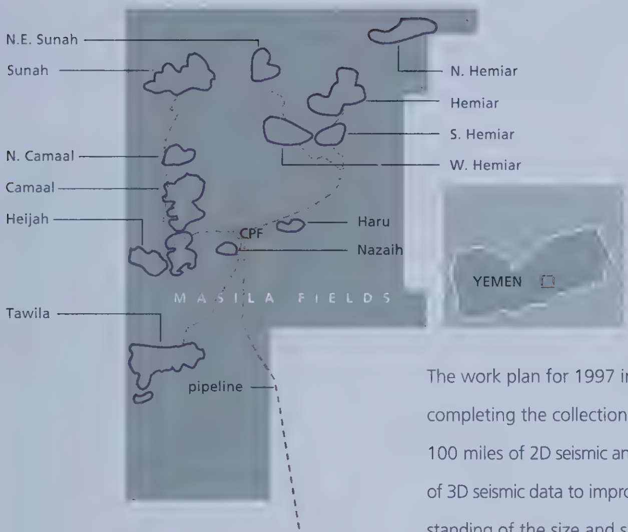
INTERNATIONAL CAPITAL EXPENDITURES
(millions of dollars)



INTERNATIONAL UNDEVELOPED ACRES (GROSS)
(millions)



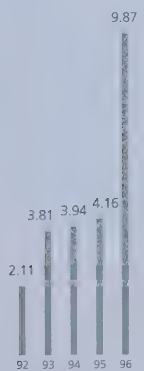
INTERNATIONAL DAILY OIL & GAS PRODUCTION
(thousands of BOE)



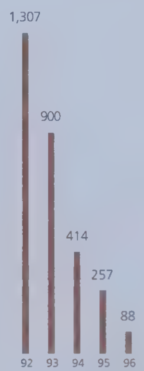
The work plan for 1997 includes completing the collection and analysis of 100 miles of 2D seismic and 50 square miles of 3D seismic data to improve our understanding of the size and structure of the major features of the Block, drilling 15 development and appraisal wells, workover activities, facility enhancement and pressure maintenance activity. These activities are intended to optimize field recoveries, evaluate secondary recovery opportunities in several reservoirs and add proved reserves. Evaluation of early information from the seismic program led to the drilling of three delineation wells in the Tawila Field in early 1997. These wells are currently producing at a combined average of approximately 24 thousand barrels per day.

We also continue to evaluate opportunities on other blocks in Yemen where we can capitalize on our extensive knowledge base and our ability to operate cost effectively from our existing infrastructure in the country.

INTERNATIONAL PROVED RESERVE REPLACEMENT COSTS
(US $/BOE - five year average)



INTERNATIONAL PROVED RESERVE REPLACEMENT RATIO
(per cent - five year average)



opportunity portfolio Our opportunity portfolio expanded significantly in 1996 with the acquisition of interests in the Merangin, Seram, Karang Besar and Maratua Blocks in Indonesia and the Troyano, Paramo Este and Paramo Oeste Blocks in the Putumayo Basin in Colombia. Our International exploration portfolio contains prospects ranging from untested acreage offsetting proven production in maturing basins to frontier prospects in proven basins.

drilling We drilled 15 development wells resulting in 14 oil wells and one dry hole. We also participated in seven international exploration wells resulting in an oil discovery on Block 15 in Ecuador and a non-commercial gas discovery on Block 12W offshore Vietnam. Further drilling will take place in 1997 to explore the potential of these Blocks.

reserves The International Division's reserve replacement rate has decreased and costs have risen since 1992 as the Division invested in the facilities and infrastructure to produce Masila crude, reduced capital spending to repay debt and directed capital to capture new opportunities.

Over the past five years, the Division has added proved reserve volumes equal to 88 per cent of production, while the cost of replacing reserves has averaged U.S. $9.87 per barrel of oil equivalent. The Division's reserve life index is 3.7 years for proved reserves and 8.8 years for proved and probable reserves.

overview

reserves (cont'd) In 1997 the focus of the International capital program will shift from business development to exploration drilling for new reserves. As we move forward in the exploration cycle and are successful, we expect both reserve replacement rates and costs to improve significantly.

production The International Division established a new production record in 1996, averaging over 100 thousand barrels of oil equivalent per day. The Masila Fields in Yemen are our major source of crude oil, producing over 65 million barrels (gross) in total during 1996 and over 197 million barrels (gross) since the inception of the project.

production costs Our International Division is one of the lowest cost producers in the industry. In 1996, lifting plus general and administrative costs averaged U.S. $1.94 per barrel of oil equivalent.

INTERNATIONAL PRODUCTION COSTS (US $/BOE)

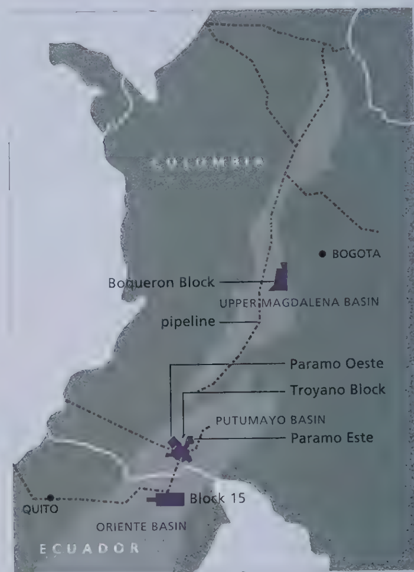
case study

COLOMBIA

" Our business plan in northern South America is to establish a dominant position in producing basins having both exploration and exploitation potential."

David Mitchell Division Manager, Latin America Business Development

We took a major step forward during 1996 when we acquired interests in 617 thousand undeveloped acres in the Putumayo Basin of south west Colombia. We acquired a 50 per cent interest in the Troyano Block when Ecopetrol, our partner and the operator, elected to make certain of its reserve acreage available under new contract terms. We have identified two moderate risk, seismically-defined drilling prospects on the block, near the 200 million barrel Orito Field, and will test one of these in late 1997.



We also acquired 100 per cent interests in the Paramo Este and Paramo Oeste Blocks. In 1997, we will acquire 200 kilometers of new seismic, and reprocess existing data to identify potential drilling locations. These blocks occupy the intervening acreage between several producing fields and have the potential for multiple, low to moderate risk exploration opportunities.

We were attracted to the Putumayo Basin by the lack of exploration activity since the initial discoveries in the mid-1960's and by geological similarities to Ecuador's Oriente Basin where we have held an interest in Block 15 for a number of years. The basin is served by existing pipelines and has significant excess processing capacity enabling exploration successes to be brought onstream quickly and at relatively low cost. Mapping and definition of the Troyano structure was made possible by the major advances in foldbelt seismic acquisition and processing technology. CanadianOxy plans to apply this technology to the remainder of this under-explored play fairway on the Paramo Blocks.

We also hold a 40 per cent interest in the 242 thousand acre Boqueron Block located in the Upper Magdalena Basin. Two prospective exploration fairways and a number of leads have been identified from surface mapping and seismic reprocessing completed in 1996. We commenced an additional 230 kilometer seismic program in early 1997 to identify potential drilling locations.

We have a growing portfolio of opportunities in South East Asia. Our strategy is to target natural gas in proximity to rapidly developing markets and oil prospects in under-explored basins where we receive more attractive frontier fiscal terms. These prospects have the highest potential impact in our portfolio and we plan to test three of them in 1997.

BLOCK 12W We have a 50 per cent interest in and operate Block 12W in the Con Son Basin off the south coast of Vietnam. We drilled one exploration well which produced natural gas under testing. Although this structure does not contain commercial volumes on a stand-alone basis, we have identified a number of other follow-up gas prospects which we are building into our overall exploration strategy. In addition, we believe the Block is prospective for oil and plan to test one such prospect in 1997.

MERANGIN CanadianOxy acquired a 40 per cent interest in the 746 thousand acre Merangin Block in mid-1996. The Block is in a relatively unexplored area of South Sumatra and provides exposure to large, moderate risk gas prospects along a trend which has recently yielded large gas discoveries on adjacent blocks. A 650 kilometer seismic program was completed in 1996 and the first exploration well is planned for mid-1997.

KARANG BESAR/MARATUA CanadianOxy acquired a 48 per cent interest in the 240 thousand acre Karang Besar Block offshore eastern Kalimantan and a 10 per cent interest in the adjoining 1.7 million acre Maratua Block. One well is planned in 1997 to test a major carbonate reservoir on the Karang Besar Block.

SERAM We acquired a 100 per cent interest in the Seram Block in late 1996. The Block covers approximately 3.7 million offshore acres on a developing Mesozoic trend in the Arafura Basin. A 2,000 kilometer seismic program is planned in 1997 to identify structures and potential drilling targets.

funds flow from operations
Production growth coupled with high oil prices and low overall production costs largely offset a reduction in our percentage share of revenue from Yemen, resulting in International funds flow from operations of $531 million, compared to $504 million in 1995.

Our percentage share of Yemen revenue declines as we recover past capital expenditures. In 1996, our share (net of Government take) of gross production from the Masila Block was approximately 24 per cent, compared to 29 per cent in 1995. The balance of production went to our partners and the Government of Yemen. In the next few years, we expect our share to remain approximately at the 1996 level.

INTERNATIONAL FUNDS FLOW FROM OPERATIONS
(millions of dollars)

OTHER INTERNATIONAL OPERATIONS

COUNTRY	PROPERTY	INTEREST (PER CENT)	OPERATOR	GROSS UNDEVELOPED ACRES	1997 PLANS
UNITED KINGDOM	Caister South Valiant Vulcan Hunter Cavendish Exploration Blocks CMS Pipeline	30 12.5 7.9 30 25 20-50 15	no	348,000	One development well Pre-development of Cavendish Field Three exploration wells
ECUADOR	Block 15	Service Agreement	no	482,000	Two exploration wells 600 km of 2D seismic
NIGERIA	Block OML 109	Service Agreement	yes	45,000	Three development wells One exploration well
PAKISTAN	East Badin Extension Block 'A'	30	no	945,000	One exploration well
ROMANIA	Block XV (Midia) Block XIII (Pelican)	10	no	1,739,000	Continue exploration
KAZAKSTAN	Kyzl-Kiya Aryskum Maybulak South Kumkol	40	yes	25,000	

international division

our plans

- maintain high rates of production in Yemen
- complete development of Ejulebe Field on Block OML 109 in Nigeria
- commence pre-development of Cavendish Field in the North Sea targeting production in late 1998
- drill 12 major exploration wells testing over one billion barrels of oil equivalent of potential reserves
- commence geological and geophysical evaluation of Paramo Este and Paramo Oeste Blocks in the Putumayo Basin of Colombia and Seram Block in Indonesia
- capture new exploitation/exploration opportunity in North Africa
- expand business development activities in South East Asia and South America

chemicals division

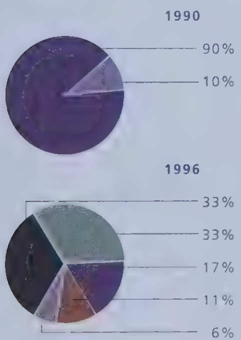
overview

The Chemicals Division, through CXY Chemicals, manufactures and markets industrial chemicals which are produced from three primary raw materials — salt, electric power and fresh water.

We are a leader in the rapidly growing North American sodium chlorate industry with six plants strategically located throughout Canada and the United States.

We also produce chlorine and caustic soda at a chlor-alkali facility located at North Vancouver, British Columbia. With the decline in the use of chlorine as a pulp bleaching agent we initiated a successful program to penetrate new chlorine markets, enabling the North Vancouver facility to continue to operate at full capacity.

CHLORINE MARKET DIVERSIFICATION
(1990 vs 1996)



case study

GROWTH IN SODIUM CHLORATE

" CXY Chemicals has successfully made the transition to a major sodium chlorate producer and is now well positioned with modern and strategically located facilities to compete effectively in this business in North America."

Rick Jensen Vice-President, Manufacturing

Reduction in the use of chlorine as a pulp bleaching agent has been a major factor underlying growth in the sodium chlorate industry since the mid-1980's. The most economical way to produce elemental chlorine-free wood pulp is to replace chlorine with sodium chlorate. Research also indicates that the use of sodium chlorate produces a better quality pulp product. These factors ignited demand for sodium chlorate which has grown at approximately eight per cent per year since the late 1980's.

CXY Chemicals has expanded production capacity to meet this growth.

SODIUM CHLORATE PRODUCTION CAPACITY (thousand short tons)

pre 1987	1987	1991	1992	1993	1994	1995	1996
42	91	194	231	217	217	349	447

In mid-1995, CXY Chemicals commenced a major strategic initiative, expanding the Brandon, Manitoba and Bruderheim, Alberta sodium chlorate facilities and expanding and modernizing the Taft, Louisiana plant. This process was completed during the third quarter of 1996. In addition, CXY Chemicals acquired a sodium chlorate facility located at Beauharnois, Quebec in late 1995. CXY Chemicals is now the third largest manufacturer of sodium chlorate in North America with 447 thousand short tons of annual capacity and 20 per cent market share.

At present, we have six sodium chlorate manufacturing facilities.

overview

capital CXY Chemicals aggressively expanded and modernized its sodium chlorate business over the past five years. The most recent expansion program was completed during the third quarter of 1996, doubling 1994 capacity from 217 to 447 thousand short tons. Ongoing maintenance capital for the Division typically is about $10 million per year.

capacity utilization Demand for pulp bleaching chemicals softened in the first half of 1996 as pulp and paper producers reduced inventories which had built up during the latter months of 1995. Demand increased in the second half of the year as pulp producers returned to stronger operating levels. As a low cost producer, we maintained high average operating rates across our facilities throughout this period.

funds flow from operations CXY Chemicals provides a significant and growing source of free cash flow for CanadianOxy. During 1996, funds flow from operations increased 22 per cent to $90 million.

return on investment CXY Chemicals is highly profitable. Recent expansions and acquisitions have been made at well below replacement cost, ensuring high returns throughout the business cycle.

case study

GROWTH IN SODIUM CHLORATE

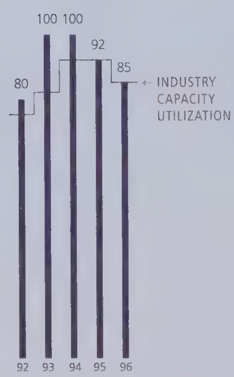
Each plant is strategically located to provide either market access or cost advantages. Our three largest facilities, Taft, Brandon and Bruderheim provide over 70 per cent of our production. Brandon and Bruderheim are two of the lowest cost producers in the industry. Our other facilities are very competitive in serving particular customers or markets, largely due to their location. Overall, our mix of production facilities allows us to serve all major North American markets.

Approximately 660 thousand short tons per year of chlorine is still being used for pulp bleaching in North America. Upon passage of stricter environmental legislation in the United States, it is expected that most of this chlorine use will be eliminated by the year 2000. As the lowest cost alternative, we expect that sodium chlorate will be substituted for chlorine in the pulp bleaching process. Depending upon the impact of other bleaching and pulping chemicals used, we expect that sodium chlorate demand will increase between 165 to 275 thousand short tons by the year 2000.

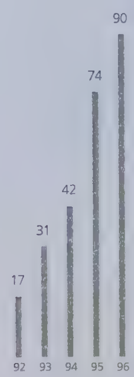
Based upon recent and announced expansions, debottleneckings and modernizations, chlorate supply is expected to slightly exceed demand over the short term. However, with demand growing at rates of five to eight per cent per year, supply and demand are expected to be in balance within two years. Following a period of declining prices over the previous few years, sodium chlorate prices strengthened in 1996. We expect prices to moderate slightly in 1997.

CHEMICALS
CAPITAL EXPENDITURES
(millions of dollars)

CHEMICALS
SODIUM CHLORATE CAPACITY UTILIZATION
(per cent)



CHEMICALS
FUNDS FLOW FROM OPERATIONS
(millions of dollars)



our plans

- → focus on maximizing operating and financial performance
- → increase sodium chlorate production approximately 12 per cent
- → increase chlor-alkali production approximately six per cent
- → pursue offshore market opportunities for sodium chlorate sales
- → develop new opportunities in existing markets
- → continue diversification into higher margin chlorine markets

responsible care

Responsible Care® is a Chemical industry initiative which is an integral and fundamental part of CXY Chemicals' culture. Responsible Care® is designed to minimize adverse effects on health and the environment through strict adherence to eight guiding principles.
These principles mean that we will:

- → produce chemicals that can be manufactured, transported, used and disposed of safely;
- → operate our facilities in a manner that protects the environment and the health and safety of all;
- → prioritize health, safety and environmental considerations for all products and processes;
- → recognize and respond to community concerns about our operations and products;
- → counsel customers on the safe use, transport and disposal of our products;
- → participate in the development of responsible laws, regulations and standards to safeguard the community, workplace and environment;
- → promptly report information on chemical related health or environmental hazards and recommend protective measures; and
- → promote the principles and practices of Responsible Care® by sharing experiences and offering assistance to those who produce, handle, use, transport and dispose of chemicals.

Responsible Care® also consists of six Codes of Practice governing Community Awareness and Emergency Response, Manufacturing, Transportation, Distribution, Hazardous Waste Management and Research and Development.

CXY Chemicals is committed to the Responsible Care® ethic, and undertakes an annual self assessment to ensure all our operations meet or exceed the intent of each Code of Practice. We are committed to working with all the key stakeholders in the "cradle to grave" management of our operations. This includes the community, our suppliers and our customers, as well as our employees.

shareholders

We are positioned for growth in all of our businesses and are aggressively pursuing new opportunities. By striving for first-tier performance in all areas of operations, we believe our shareholders can look forward to growth in the value of each of our Divisions in the upcoming year.

The common shares of CanadianOxy are highly liquid and are listed for trading on The Toronto Stock Exchange, the Montreal Exchange and the American Stock Exchange, trading under the symbol "CXY".

Our common shares split on a two for one basis effective May 28, 1996. At December 31, 1996, there were 136,155,052 common shares outstanding. Occidental Petroleum Corporation owns 40,223,620 shares or approximately 30 per cent of the total shares outstanding.

people

CanadianOxy currently employs over thirteen hundred people throughout our worldwide operations. Our employees provide the knowledge, insight, creativity and energy required for continued growth of the Company's portfolio of business opportunities.

Superior training, development, compensation and benefit programs ensure we are able to recruit and retain individuals capable of achieving the growth targets set annually by the Company.

The unique blend of knowledge, skills and commitment of our employees is and will continue to be the real foundation of CanadianOxy's success.

CANADIAN OCCIDENTAL RESPECTS AND SEEKS TO FURTHER THE INTERESTS OF ALL **OUR STAKEHOLDERS**

environment/safety

Environment and safety planning and management are integral components of all of our operations from initial planning to eventual abandonment and remediation of sites. We ensure our projects around the world meet applicable regulatory and industry environmental, health and safety standards. In addition, in partnership with our employees, customers and the general public, we undertake numerous programs to protect the environment and foster health and safety.

We integrate environment, health and safety planning into our business decision-making.

- Environmental impact studies and health and safety risk assessments are conducted for all major new investments. CanadianOxy's high level of exploration activity in 1996 required the preparation of assessments in several countries including Vietnam, Nigeria and Kazakstan. Regulatory approvals followed promptly in each case.
- Protection measures are factored into project design with close monitoring of ongoing operational effects and built in environment and safety audits to enhance our performance. CanadianOxy recorded no significant environmental incidents in 1996. Although the Company's injury incident rate increased slightly to 1.39 in 1996, the overall trend has exhibited a decrease over the last five years. This year CXY Energy received the United States Minerals Management Service Safety Award for Excellence at the West Delta site for applying the principles of the SAFE program to their daily operational activities, thus promoting the practice of operational safety, environmental protection and compliance with operating regulations. Three chemical plants received The Canadian National Railways Award for safe handling of hazardous materials.

We are strong and committed advocates of voluntary initiatives such as the Canadian Chemical Producers' Association's Responsible Care® program, the National Emissions Reduction Masterplan, the multi-stakeholder Accelerated Reduction and Elimination of Toxics program and numerous programs directed at producing continuous improvement in environment, health and safety performance. We are actively engaged in industry and government initiatives to implement the Canadian Toxics Substances Management Policy and the Chlorinated Substances Action Plan, and support Canada's Climate Change Voluntary Challenge and Registry program. Our studies show a 33 per cent improvement in the energy efficiency of our operations and a 27 per cent reduction in our carbon dioxide emissions per barrel equivalent in the period 1990 to 1995. Further improvement is anticipated as other cost-effective energy and emission saving projects are implemented.

We are also founding sponsors of the multi-stakeholder Alberta Ecotrust Foundation which was the recipient of the 1996 Financial Post Environment Award in the business partnership category.

community

We are committed to operating in a manner which protects and enhances the environment and the health and welfare of our employees and the public. We value open communication with all stakeholders, especially in the areas where we operate. We support and participate in many forums where the open exchange of ideas and opinions is encouraged.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS ENVIRONMENT

World crude oil prices were strong throughout 1996. The West Texas Intermediate crude oil reference price ("WTI") averaged U.S. $22 per barrel while experiencing significant volatility ranging from U.S. $17 to U.S. $27 per barrel. WTI averaged U.S. $18.40 per barrel during 1995. Canadian heavy oil differentials widened during the year, however, this was offset by improved differentials on other Canadian crude oil grades.

North American natural gas prices also showed improvement over 1995. In the United States, the New York Mercantile Exchange (NYMEX) spot price averaged U.S. $2.50 per Mcf as compared to U.S. $1.69 per Mcf in 1995. In Canada, the Alberta spot price showed modest improvements averaging $1.35 per Mcf as compared to $1.07 per Mcf in 1995. Contributing to these improved prices was colder-than-normal weather resulting in inventory levels being drawn down to abnormally low levels. The Canadian natural gas market continues to be affected by competition amongst Western Canadian producers brought about by export transportation constraints.

The Chemicals Division experienced lower operating rates in 1996 as a result of a slowdown in the pulp and paper industry to which it sells a substantial portion of its bleaching chemicals. Nevertheless, plant expansions and acquisitions over the past few years resulted in an increase in the Division's sales volumes over 1995. Despite weaker demand from the pulp and paper industry, the Division was able to achieve modest price increases for sodium chlorate while other product prices remained relatively constant with 1995 prices.

The Canadian dollar relative to the United States dollar remained largely unchanged. During 1996, the Canadian dollar averaged U.S. $0.7334 as compared to U.S. $0.7285 in 1995 and U.S. $0.7321 in 1994. Late in the year, the dollar started to show signs of volatility trading as high as U.S. $0.7525. Interest rates declined during 1996 to their lowest levels in several years.

OVERVIEW OF 1996

For the third consecutive year, the Company achieved record funds flow from operations of $766 million ($5.64 per common share) and net income of $190 million ($1.40 per common share). This outstanding financial performance was attributable to record production of crude oil, natural gas and chemicals together with improved crude oil and natural gas prices. The North American and Chemicals Divisions showed significant growth in operating profit while the International Division was able to maintain its level of profitability despite an increase in exploration expense as the Company begins to explore its opportunity portfolio.

The oil and gas divisions continued to expand their opportunity portfolios by acquiring undeveloped acreage primarily in Canada, the United States, Nigeria, Indonesia and Colombia. Together with previously acquired acreage, CanadianOxy has a significant presence in several core focus areas including North America, Yemen, the North Sea, Nigeria, South East Asia and northern South America.

The Chemicals Division completed modernizations and expansions of its Taft, Bruderheim and Brandon sodium chlorate facilities bringing its total annual capacity to 447,000 short tons.

This discussion comprises the Management's Discussion and Analysis as contained in the Company's Annual Report on Form 10-K and additional information relating to funds flow from operations. This should be read in conjunction with the Consolidated Financial Statements included in this report. The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in Canada. The impact of the significant differences between Canadian and United States accounting principles on the financial statements is disclosed in Note 15 to the Consolidated Financial Statements.

VIC ZALESCHUK
Senior Vice-President, Finance
and Chief Financial Officer

DIVISIONAL OPERATIONS

The following discussion of CanadianOxy's three operating Divisions and Corporate should be read in conjunction with Note 14 to the Consolidated Financial Statements. Divisional operating results exclude financing related items, unallocated selling, administrative and other operating expenses and income taxes.

north american division

	1996		1995		1994	
	Volume	Amount	Volume	Amount	Volume	Amount
CRUDE OIL AND CONDENSATE SALES AND PRICES (Mbbls/d and $/bbl)						
United States	**13.4**	**$ 29.43**	11.7	$ 23.91	11.2	$ 21.35
Canada	**12.5**	**25.11**	10.9	20.87	10.0	18.48
Synthetic Crude Oil	**14.5**	**29.44**	14.6	23.91	13.8	21.72
NATURAL GAS SALES AND PRICES (Mmcf/d and $/Mcf)						
United States	**78.4**	**$ 4.04**	53.7	$ 2.67	66.4	$ 2.92
Canada (1)	**127.1**	**1.56**	134.2	1.18	129.1	1.89
NET SALES (millions)						
United States		**$ 214**		$ 127		$ 129
Canada		**163**		128		138
Alternate Fuels		**127**		111		104
		$ 504		$ 366		$ 371
OPERATING PROFIT (millions)						
United States		**$ 56**		$ 43		$ 29
Canada		**29**		14		52
Alternate Fuels		**39**		35		17
		$ 124		$ 92		$ 98

(1) Sales volumes differ from production volumes due to natural gas storage movements.

In the United States, operations have grown substantially as a result of improved prices and increased volumes. Price increases are consistent with increases in world crude oil prices and the NYMEX natural gas price as the majority of the production is sold under short-term contracts. Volume increases are primarily attributable to the October 1995 Eugene Island acquisition offset by property divestitures in 1995. The October 1996 Vermilion acquisition did not significantly impact results, however, natural gas production from this property averaged 30 Mmcf/d during December.

Net sales increased 69 per cent over 1995 due to price improvements and volume increases. Operating profit increased 30 per cent over 1995 and nearly doubled over 1994. Offsetting the increased net sales in 1996 were higher operating costs and depletion charges relating to the increased volumes, and higher exploration expense as exploration activities increased. Increased operating profit in 1995 over 1994 reflects one-time items relating to a favorable settlement of a natural gas underlift and the recognition of a dismantlement over-provision based on an independent assessment of expected costs.

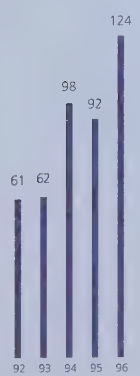
In Canada, production has grown modestly since 1994, however, profitability has varied during this time. Drilling success has provided for a 25 per cent growth in crude oil volumes, while increased natural gas volumes were offset by property divestitures. Substantially all of the crude oil production is sold under short-term contracts allowing the Company to obtain the benefit of improved world crude oil prices. The majority of the natural gas is also sold under short-term contracts thereby exposing the Company to fluctuating Canadian natural gas prices.

Net sales increased 27 per cent over 1995 reflecting higher crude oil prices and production, and higher natural gas prices. In 1995, substantially reduced natural gas prices were partially offset by higher crude oil and natural gas production and improved crude oil prices resulting in an overall decrease in net sales as compared to 1994. Operating profit more than doubled over 1995 reflecting improved prices offset by higher exploration expense attributable to increased exploration activities. In 1995, operating profit declined significantly over 1994 due to lower net sales, smaller gains on property divestitures and higher depletion charges.

In Alternate Fuels, profitability is primarily dependent on the prices received for synthetic crude oil, volumes produced, the net profits interest payment to the Province of Alberta and operating costs per barrel. Net sales increased with improved world crude oil prices as substantially all production is sold under short-term contracts. Partially offsetting this, however, is an increase in the net profits interest payment which averaged 19 per cent of gross revenues in 1996, 13 per cent in 1995 and four per cent in 1994. The amount of the payment is dependent on several factors including production volumes, prices received and plant operating costs. In addition, proposed terms covering the transition to generic royalty terms are expected to have a favorable impact on the net profits interest payment when approved.

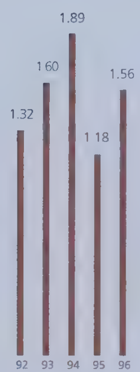
Operating profit increased with net sales. Operating costs, including dismantlement and site restoration allowance, have been on a downward trend averaging $13.85 in 1996 as compared to $13.96 in 1995 and $16.06 per barrel in 1994. Higher operating costs in 1994 reflect a provision for a workforce reduction program. Depletion expense increased in 1996 due to the acceleration of the retirement of certain equipment. Operating profit for 1995 included a gain on sale of certain oil sands leases and 1994 included a gain on the favorable settlement of a lawsuit.

NORTH AMERICAN
OPERATING PROFIT
(millions of dollars)



NORTH AMERICAN
FUNDS FLOW
FROM OPERATIONS
(millions of dollars)

NORTH AMERICAN
CANADIAN GAS
PRICES RECEIVED
(Cdn $/Mcf)



NORTH AMERICAN
UNITED STATES GAS
PRICES RECEIVED
(US $/Mcf)

	1996		1995		1994	
	Volume	Amount	Volume	Amount	Volume	Amount
CRUDE OIL SALES AND PRICES (Mbbls/d and $/bbl)						
Yemen (1)	**90.7**	**$ 27.42**	90.9	$ 22.99	77.7	$ 20.16
South America	**3.6**	**16.16**	4.5	14.24	4.3	14.04
NATURAL GAS SALES AND PRICES (Mmcf/d and $/Mcf)						
North Sea	**36.6**	**$ 4.61**	36.4	$ 4.47	43.4	$ 4.33
NET SALES (millions)						
Yemen		**$ 522**		$ 499		$ 381
North Sea		**60**		59		64
South America		**21**		23		22
		$ 603		$ 581		$ 467
OPERATING PROFIT (LOSS) (millions)						
Yemen		**$ 268**		$ 206		$ 137
North Sea		**(5)**		9		21
South America		**4**		4		6
Other		**(59)**		(31)		(35)
		$ 208		$ 188		$ 129

(1) Production volumes were 92.1 Mbbls/d (1995 - 90.3 Mbbls/d; 1994 - 78.1 Mbbls/d). Sales volumes differ from production volumes due to the timing of tanker loadings.

In Yemen, crude oil production volumes continued to be strong achieving an annual record of 92,100 bbls/d (177,100 bbls/d gross). This reflects successful development drilling and the expansion of the facilities to handle an increase in total fluids produced. The increase in production in 1995 over 1994 similarly reflects the capital program which was directed to connecting satellite fields to the central processing facilities. The average price received for Masila Blend crude oil increased in 1996 and 1995 consistent with higher world crude oil prices. In addition, as the product has gained market acceptance for its quality and reliability of supply, the price differential to Dated Brent has been narrowing moving from U.S. $1.93 per barrel in 1994 to U.S. $0.86 per barrel in 1996.

Under the terms of the Yemen production sharing agreement, production is divided into cost recovery oil and profit oil. Cost recovery oil provides for the participants' recovery of operating, exploration and development costs over one, four and six years, respectively, to a maximum of 40 per cent of production during each fiscal year. Profit oil is that portion of production remaining after deducting cost recovery oil and is shared on a sliding scale basis amongst the Government and the participants based on production rates.

Commencing in 1996, cost recovery oil was limited by the available annual recoverable costs rather than the 40 per cent maximum. This resulted in a decrease in cost recovery oil revenue of approximately $69 million, however, this was partially offset by the related increase in profit oil revenue of $53 million. Under the Company's accounting policy, lower cost recovery oil does not impact operating profit as the related revenues are largely offset by operating costs and depreciation and depletion. Conversely, the increase in profit oil results in an increase in operating profit as depreciation and depletion is recognized on the unit-of-production basis. In 1995 and prior years, cost recovery oil was limited by the 40 per cent maximum and, therefore, the related revenue increased with production volumes and crude oil prices received.

Based on past unrecovered capital expenditures and 1997 budgeted expenditures, the Company expects cost recovery oil revenue to decrease by approximately $50 million in 1997. The amount of the related increase in profit oil revenue will depend on production rates and the prices received for the crude oil.

During 1995, the Company received 29 per cent of the Masila Project's production with the balance being received by the Government and other participants. With the reduction in cost recovery oil in 1996, the Company's share decreased to 24 per cent. Based on current expectations, the Company estimates its share of total production to remain at this level in 1997.

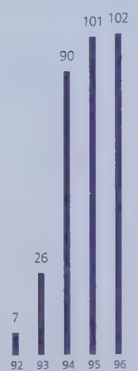
In the North Sea, natural gas is sold under long-term contracts which cover the life of the field. Purchasers nominate the amount and timing of purchases but are obligated to purchase prescribed minimum volumes during each contract year. Prices are redetermined periodically in accordance with a formula based upon reference indices. The nature of these contracts together with the recent availability of natural gas at lower spot market prices have resulted in the purchasers acquiring natural gas from the Company at take-or-pay levels.

Declining operating profits during the three years reflect an increase in exploration activities as the Company begins to explore the undeveloped acreage in the North Sea. In 1996, exploration expense related to unsuccessful drilling of new structures in the Cavendish and Caister Fields. In 1995, exploration expense included expenditures relating to a three-dimensional seismic program over several exploration blocks. In 1994, exploration expense was minimal as the Company had recently completed the Caister Field development.

In South America, crude oil volumes declined due to the expiration of the contract in Peru in July and declining field performance in Ecuador. Operations in Peru did not contribute significantly to net sales or operating profit. The average price received increased due to higher world crude oil prices, however, such increases were limited due to the nature of the risk service contracts.

The "other" International component generally comprises the acquisition of seismic, unsuccessful exploration drilling and expenditures relating to business development activities. The increased expenditures in 1996 primarily reflect two unsuccessful exploration wells in Nigeria and the amortization of capitalized costs.

INTERNATIONAL
DAILY OIL & GAS PRODUCTION
(thousands of BOE)



INTERNATIONAL
OPERATING PROFIT
(millions of dollars)

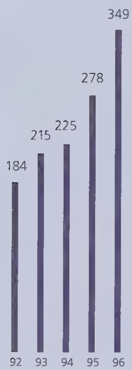
INTERNATIONAL
FUNDS FLOW FROM OPERATIONS
(millions of dollars)

chemicals division

	1996	1995	1994
PRODUCTION			
(thousand short tons)			
Sodium chlorate	**349**	278	225
Chlor-alkali (1)	**325**	334	321
SALES			
(thousand short tons)			
Sodium chlorate	**349**	283	227
Chlor-alkali (1)	**318**	319	307
SALES			
(millions)			
Canada	**$ 198**	$ 207	$ 177
United States	**57**	26	–
	$ 255	$ 233	$ 177
OPERATING PROFIT			
(millions)			
Canada	**$ 50**	$ 48	$ 28
United States	**16**	–	–
	$ 66	$ 48	$ 28

(1) Sales volumes differ from production volumes primarily due to the use of chlorine in the production of muriatic acid.

CHEMICALS
SODIUM CHLORATE PRODUCTION
(thousands of short tons)



The Chemicals Division manufactures sodium chlorate and chlor-alkali (caustic soda, chlorine and muriatic acid) in Canada and sodium chlorate in the United States. Sodium chlorate and caustic soda are sold primarily to the North American pulp and paper industry and chlorine is sold to the pulp and paper, water treatment and petrochemicals industries. The Division also manufactured specialty chemicals but sold the remainder of these operations in 1994 and early 1996.

During the past few years, the operations have grown through plant expansions and acquisitions. In mid-1995, the Division combined its operations with Occidental Petroleum Corporation's ("Occidental") sodium chlorate operations, and at the end of 1995 acquired a sodium chlorate facility in Beauharnois. During 1996, facility modernizations and expansions were completed at Taft, Bruderheim and Brandon.

Sodium chlorate sales have risen over the past three years in response to the expansions and acquisitions. In 1996, however, sales increases were tempered by lower operating rates in the pulp and paper industry. As a result, sodium chlorate operating rates averaged 85 per cent of capacity as compared to near full capacity in prior years. Chlor-alkali sales are less dependent on the pulp and paper industry and related decreases were offset in part by a strong chlorine market.

CHEMICALS
FUNDS FLOW FROM OPERATIONS
(millions of dollars)

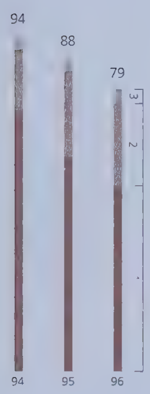
Combined Canadian and United States sales growth reflects the increased production capacity offset by reduced operating rates relating to the pulp and paper industry and the disposition of the specialty chemicals operations. Despite a weaker pulp and paper industry, a modest sodium chlorate price increase was attained in 1996 while other product prices remained relatively constant during the three years. The mix in sales between Canada and the United States reflects the increased capacity, except in 1995 when Canadian sales were increased to cover the United States operations while the Taft facility underwent an expansion and modernization.

Growth in operating profit reflects increased sales and the effects of a write-down in carrying value in 1995 and a gain in 1994 relating to the divestitures of the specialty chemicals operations.

Collective bargaining agreements covering employees at North Vancouver and Brandon are due for renewal in 1997. Agreements covering remaining unionized employees are in place through 1997.

corporate and consolidated

CORPORATE
EXPENSES
(millions of dollars)



1 Interest
2 Unallocated G & A
3 Other

CORPORATE

Corporate expenses have steadily decreased as declining long-term debt has contributed to lower interest expense. In each of the years, amortization of deferred foreign exchange losses was approximately offset by higher interest income and a small net gain recognized on repayments of the syndicated term loan. Such repayments resulted in recognition of a portion of the deferred foreign exchange losses and the deferred gain on the 1994 termination of interest rate swap arrangements. At the end of 1996, the deferred foreign exchange losses and deferred gain were fully amortized.

CRUDE OIL MARKETING

Commencing in January 1995, CanadianOxy and a third party entered into an arrangement to market CanadianOxy's Canadian crude oil production, together with crude oil purchased from third parties, to refiners in Canada and the midwest and northwest regions of the United States in order to enhance prices received. Volant Energy, the name under which it operates, marketed 82,600 bbls/d of crude oil, including 21,000 bbls/d of CanadianOxy's conventional and synthetic crude oil. Note 7 to the Consolidated Financial Statements provides additional information regarding these operations.

CONSOLIDATED RESULTS OF OPERATIONS

Funds flow from operations was $766 million ($5.64 per common share) compared to $630 million ($4.68 per common share) in 1995 and $493 million ($3.67 per common share) in 1994. Funds flow from operations is defined as the sum of "Net Income", "Charges and Credits to Income not Involving Cash" and "Exploration Expense".

Net income was $190 million ($1.40 per common share) as compared to $141 million ($1.05 per common share) in 1995 and $96 million ($0.72 per common share) in 1994.

Net Sales

The increase in net sales during 1996 and 1995 was attributable to the following:

(millions)		**1996 vs. 1995**	1995 vs. 1994
CRUDE OIL	Price	**$ 95**	$ 42
	Volume	**17**	57
	Yemen cost recovery, net	**(16)**	54
NATURAL GAS	Price	**46**	(32)
	Volume	**18**	(12)
CHEMICALS	Price	**10**	32
	Volume	**12**	24
Increase in net sales over prior year		**$ 182**	$ 165

CONSOLIDATED
TOTAL REVENUES
(millions of dollars)

CONSOLIDATED
COST OF SALES
(dollars per BOE for conventional production)

Gain on Disposition of Assets

Gains relate to the disposition of properties in Canada and the United States in 1996, the disposition of properties in Canada and the sale of certain oil sands leases in 1995, and the disposition of properties in Canada and a specialty chemicals operation in 1994.

Interest and Other Income

Interest and other income comprises processing fee revenue in Canada, interest income and one-time income items. The increase in 1995 reflects a natural gas underlift settlement and recognition of a dismantlement over-provision in the United States.

Cost of Sales

On a barrel of oil equivalent basis, conventional operating costs were $2.85 as compared to $2.69 in 1995 and $3.02 in 1994. The increase in 1996 reflects the growth in higher cost North American production whereas the decrease in 1995 as compared to 1994 reflects the increased volume of low cost production from Yemen. In Alternate Fuels, operating costs have been steadily decreasing, particularly from 1994 which included an accrual for a workforce reduction program. The cost of chemicals produced on a per unit basis has been steadily decreasing due to ongoing cost and process improvement initiatives and plant expansions.

Selling, Administrative and Other Operating

Selling, administrative and other expenses remained relatively constant in 1996 and 1995. The 1995 increase over 1994 reflects Occidental's minority interest share in the Chemical's operations.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization increased over 1995 due to an increase in sales volumes and development capital expenditures, offset by lower depletion associated with cost recovery oil revenue in Yemen. During 1995, the increase reflects an increase in sales volumes, higher depletion associated with higher cost recovery oil revenue in Yemen, and a write-down in carrying value of the specialty chemicals operations.

Exploration Expense

With the completion of major development projects in Yemen, the North Sea and Ecuador in late 1993, the Company developed a strategy to invest a prudent portion of its capital budget in exploring for major hydrocarbon reserves worldwide. The Company has successfully captured a large portfolio of opportunities in several focus areas including Canada, the United States, Yemen, the North Sea, Nigeria, Indonesia, Vietnam, Colombia and Ecuador. The Company is now moving into a phase of active exploration of these opportunities resulting in an increase in expenditures for seismic and exploration drilling. The increasing trend in exploration expense reflects these activities.

During 1996, International exploration expense of $68 million includes unsuccessful exploration drilling in the North Sea and Nigeria, and increased seismic acquisition in the North Sea, Indonesia, Colombia and Vietnam. North American exploration expense of $51 million similarly includes unsuccessful exploration drilling and acquisition of seismic.

CONSOLIDATED
CAPITAL EXPENDITURES
& ACQUISITIONS
(millions of dollars)

Interest Expense

Interest expense has been steadily decreasing reflecting declining levels of outstanding indebtedness. No interest expense was capitalized during these years.

Provision for Income Taxes

The effective tax rate was 40.4 per cent in 1996 as compared to 41.2 per cent in 1995 and 40.3 per cent in 1994. The primary reasons for the variations from the expected tax rate are described in Note 12 to the Consolidated Financial Statements.

Current income taxes are paid primarily in Yemen. In addition, Alternative Minimum Tax and income taxes are paid in the United States and Large Corporation Tax is paid in Canada.

CAPITAL EXPENDITURES AND ACQUISITIONS

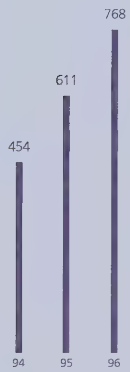
(millions)	**1996**	1995	1994
INTERNATIONAL			
Development	**$ 186**	$ 79	$ 95
Exploration	**76**	47	39
	262	126	134
NORTH AMERICA			
Development	**153**	110	96
Exploration	**91**	53	25
Acquisitions	**86**	80	5
	330	243	126
CHEMICALS			
Expenditures	**36**	52	7
Acquisitions	**–**	50	–
	36	102	7
CORPORATE	**4**	3	2
Total Capital Expenditures and Acquisitions	**$ 632**	$ 474	$ 269

The Company centrally allocates capital to projects and acquisitions based on numerous factors including achievement of a minimum economic criteria which exceeds the cost of capital, its strategic fit and the Company's financial capacity. Divisions do not have the right to expend their internally generated cash flow.

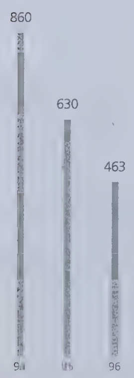
Capital spending has increased during the past three years. Consistent with the Company's overall strategy for growth, increases are reflected in each of the geographic areas and in each of the categories of expenditures including development, exploration and acquisitions.

International expenditures increased significantly over prior years. This reflects increased exploration activities and, in 1996, a $107 million expenditure in Yemen as described in Note 6 to the Consolidated Financial Statements. Exploration expenditures related to drilling in the North Sea, Nigeria, Ecuador and Vietnam, and the acquisition of seismic in the North Sea, Indonesia, Colombia and Vietnam. Development expenditures were directed to expanding the facilities to handle an increase in the fluids produced and additional development drilling in Yemen, the installation of compression facilities on the Caister Murdoch pipeline in the North Sea and development drilling in Ecuador.

CONSOLIDATED
CASH GENERATED FROM OPERATIONS
(millions of dollars)



CONSOLIDATED
NET DEBT
(millions of dollars)



North American expenditures have been on an upward trend for several years as the Division continues to exploit existing properties, expand and explore its portfolio of exploration prospects and acquire additional properties in core areas. Development expenditures, primarily focused on drilling, increased in both Canada and the United States. Exploration expenditures in Canada increased significantly reflecting increased activity on the undeveloped acreage portfolio, drilling of more expensive exploration wells, including wells in Newfoundland and central Alberta, and the acquisition of seismic and additional undeveloped land. Exploration expenditures in the United States were also higher reflecting increased drilling and undeveloped acreage acquisitions in the Gulf of Mexico.

In late 1996, the North American Division acquired four offshore blocks, two of which were producing, at Vermilion in the Gulf of Mexico for $66 million. In late 1995, the Division acquired two offshore blocks, one of which was producing, at Eugene Island in the Gulf of Mexico for $61 million. Other minor acquisitions of properties in core areas were made in Canada.

The Chemicals Division's expenditures during 1996 and 1995 reflect the plant expansions and modernizations which commenced in mid-1995 and were completed in mid-1996. Acquisition costs in 1995 include $34 million relating to the arrangement with Occidental which did not require the use of cash as it was funded by the issuance of partnership interests in the sodium chlorate operations to Occidental, and the year end acquisition of a sodium chlorate facility in Quebec.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1996, the Company had cash and short-term investments of $109 million and working capital of $130 million. Long-term debt totalled $572 million of which $203 million is scheduled for repayment in 1997 and $100 million in 1998. The Company intends to refinance the 1997 repayments through existing long-term facilities and, accordingly, such amounts were not included in current liabilities. Shareholders' equity totalled $1.1 billion. The Company had unused committed long-term lines of credit of approximately $628 million and undrawn short-term operating loan facilities of $293 million and a commercial paper program of $200 million which is supported by unused lines of credit. There are no provisions under existing debt agreements that restrict the ability to move funds amongst operating entities.

During 1996, the Company repaid the five-year term loan in the amount of U.S. $50 million on its maturity. The Company obtained an unsecured five-year term loan with a Canadian chartered bank in the amount of U.S. $50 million and issued $100 million unsecured ten-year redeemable debentures. Subsequently, the Company entered into an interest rate and currency exchange contract which effectively converted $50 million of principal and related interest payments into a United States dollar loan.

Operating activities generated cash of $768 million compared with $611 million in 1995 and $454 million in 1994. This reflects the increase in net income before non-cash items and exploration expense. When operating results increase, related non-cash working capital (principally accounts receivable) also generally increases reflecting a delay in collection of the cash generated. The Company has minimized this increase by the year end sale of accounts receivable in the amounts of $34 million, $52 million, and $63 million in 1996, 1995 and 1994, respectively. In effect, these sales advance the collection of non-interest bearing receivables which are used to reduce interest-bearing obligations.

Investing activities used cash of $583 million as compared to $414 million in 1995 and $267 million in 1994. This reflects higher levels of capital expenditures and acquisitions, and varying amounts of cash generated from the disposition of assets. In 1994, $48 million was used to reduce significant accruals associated with the major development programs which were completed near the end of 1993.

Financing activities used cash of $123 million as compared to $215 million in 1995 and $154 million in 1994. This primarily reflects the use of surplus cash generated from operations over capital requirements to reduce long-term debt. Variations in the timing of capital expenditures and acquisitions as compared to operating cash flows results in the Company borrowing and repaying debt during the year.

The Company declared common share dividends at a rate of $0.30 per common share in 1996 as compared to $0.225 and $0.20 per common share in 1995 and 1994, respectively.

FOREIGN INVESTMENTS

Portions of CanadianOxy's oil and gas assets are located in countries outside North America some of which may be considered politically and economically unstable. These assets and the related operations are subject to the risk of actions by governmental authorities and insurgent groups. It is CanadianOxy's policy to conduct its business so as to minimize such risks. At December 31, 1996, the carrying value of CanadianOxy's oil and gas properties in countries outside North America aggregated approximately $735 million or 38 per cent of total Property, Plant and Equipment.

The United States dollar is the functional currency of the Company's foreign operations except in the United Kingdom. Capital and operating expenditures and revenues earned in these foreign locations are principally transacted in United States dollars or United Kingdom pounds sterling. The Company has no material exposure to highly inflationary foreign currencies. In addition, there are no restrictions on accessing cash generated in any foreign operation.

FINANCIAL RISK EXPOSURES AND MANAGEMENT

The nature of the Company's operations and the issuance of long-term debt expose the Company to fluctuations in foreign currency exchange rates, interest rates and commodity prices. CanadianOxy manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical, and through the periodic use of derivative financial instruments and commodity contracts (collectively referred to as "derivatives"). The Company's financial risk profile at December 31, 1996 and its management thereof are described in Note 7 to the Consolidated Financial Statements.

The Company has developed a formal written policy in order to minimize its exposure relating to the use of derivatives. Derivatives may only be used to manage exposures to specific foreign currency transactions or balances, interest rate fluctuations and commodity price fluctuations. Highly complex or leveraged derivatives may not be used nor may they be used for trading purposes. Derivatives must be with financially sound counterparties, preferably where offsetting provisions are available. The Chief Executive Officer is required to approve all derivative arrangements but only up to a prescribed limit; arrangements exceeding this limit require the approval of the Board of Directors. The Finance Committee of the Board of Directors is required to review, at each meeting, the results of derivative activities and all outstanding positions.

The Company's foreign operations and its Canadian operations to the extent commodity prices are referenced to United States dollar denominated prices are principally exposed to changes in value between the Canadian and United States dollars. Based on the foreign exchange rate, results of operations, and levels of production and borrowings at and for the year ended December 31, 1996, a one cent change in the exchange rate would have impacted net income by $6 million.

During the past few years, cash generated from operations in excess of capital requirements allowed the Company to make significant reductions in its outstanding long-term debt. This, together with the amount of fixed rate borrowings, has reduced the Company's exposure to interest rate fluctuations. In 1994, in response to the reduced exposure and a market opportunity, CanadianOxy terminated certain interest rate swap agreements for proceeds of $33 million. The related gain was deferred and amortized to income over the term of the facilities to which the agreements related.

Prices received for CanadianOxy's products are impacted in varying degrees by factors outside the Company's control. Crude oil prices are influenced by worldwide factors such as OPEC actions, political events and supply and demand fundamentals. Natural gas prices are generally influenced by more local market supply and demand fundamentals. The majority of the Company's production is sold under short-term contracts and, accordingly, the Company is exposed to short-term price movements. In recent years, financial markets have developed to provide a means to hedge against price fluctuations, however, CanadianOxy has not frequently used these markets. Based on the foreign exchange rate, results of operations and production levels at and for the year ended December 31, 1996, the impact on net income of a U.S. $1.00/bbl change in crude oil prices would have been $22 million, and a U.S. $0.10/Mcf change in natural gas prices would have been $6 million.

Prices received for chemical products are largely influenced by demand for paper products and by the acceptability of the bleaching agent utilized by the pulp and paper industry. CanadianOxy can exercise some influence on its product prices through quality of product and service, its proximity to the customer, and by diversifying its customer base.

Inflation does not significantly impact the Company's operations.

ENVIRONMENTAL EXPENDITURES

The Company's worldwide operations are subject to increasingly stringent government laws and regulations. These laws and regulations generally require the Company to remove or remedy the effect of its activities on the environment at present and former operating sites, including dismantling production facilities and remediating damage caused by the disposal or release of specified substances. The Company ensures that its projects around the world meet appropriate North American or Western European environmental standards and believes that its operations comply in all material respects with applicable environment regulations.

Of significance to the Chemicals Division are regulations which apply to its pulp and paper customers. In British Columbia, current regulations allow discharge of 1.5 kilograms of absorbable organically-bound halogens ("AOX") per tonne of pulp produced. This limit decreases to zero in 2002. Consequently, the use of chlorine as a bleaching agent is under pressure as customers move to elemental chlorine-free pulp bleaching. Other Canadian provinces and more recently the United States have established more reasonable, science-based AOX levels which the pulp and paper industry can meet with the use of sodium chlorate as the bleaching agent. The chemicals industry is working with the Chlorine Chemistry Council and the pulp and paper industry to have the Province of British Columbia reassess its position. In early 1995, the Canadian Government announced its plan to work with the industry to manage, rather than eliminate, the use of chlorinated substances.

At December 31, 1996, $117 million has been provided in the accounts for future dismantlement and site restoration costs which are currently estimated to be approximately $215 million. The Company periodically performs internal and external assessments of its operations and adjusts its annual allowance and provision accordingly. During 1996, an allowance for future dismantlement and site restoration costs of $16 million (1995 - $13 million) was recorded. Actual expenditures for the year amounted to $5 million (1995 - $4 million). During 1995, based on the results of an external assessment of the provision for an offshore production platform, a reduction of $6 million was recognized. It is anticipated that the allowance and actual expenditures in 1997 will be consistent with 1996 amounts.

OUTLOOK

The Company expects overall 1997 crude oil production to remain consistent with 1996 levels. A marginal decline in production in Yemen is expected to be offset by an increase in Canada. Natural gas production is expected to increase approximately 13 per cent primarily due to the Vermilion acquisition in the Gulf of Mexico in late 1996. Actual production will depend upon numerous factors including drilling success and availability of transportation. Due to the numerous and complex factors influencing crude oil and natural gas prices, CanadianOxy is unable to predict with certainty the direction, magnitude or impact of future trends in prices.

Capital and exploration expenditures for 1997 are budgeted to be approximately $650 million. Approximately 85 per cent is expected to be spent by the oil and gas divisions of which 37 per cent relates to exploration projects. Expenditures are expected to be split equally between the International and North American Divisions. In the International Division, expenditures are budgeted primarily for exploration and development projects in Nigeria, Yemen, Indonesia, Colombia, the North Sea and Vietnam. In Canada, expenditures will continue to be directed primarily at crude oil projects although a growing proportion will be directed to natural gas exploration projects. In the United States, expenditures are budgeted primarily for the Eugene Island, West Delta and Vermilion areas, and acquiring and exploring undeveloped acreage in the Gulf of Mexico. Chemicals expenditures are budgeted primarily for maintenance, safety and environmental matters.

STOCKHOLDERS AND MARKET DATA The common shares of CanadianOxy are traded on The Toronto Stock Exchange, the Montreal Exchange and the American Stock Exchange. On December 31, 1996, there were 1,235 registered holders of 136,155,052 common shares with a market value of approximately $3.4 billion.

The quarterly financial data on page 57 sets forth the range of trading values for our common shares as reported on The Toronto Stock Exchange and the American Stock Exchange.

report of management

The Management of Canadian Occidental Petroleum Ltd. ("CanadianOxy") is responsible for the integrity of its reported financial data. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements in accordance with generally accepted accounting principles in Canada. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures, and exercises its best judgement in order that such statements present fairly the consolidated financial position, results of operations and cash flows of CanadianOxy. The financial information contained elsewhere in this report has been reviewed to ensure consistency with that in the Consolidated Financial Statements.

In order to gather and control financial data, CanadianOxy has established accounting and reporting systems supported by internal controls and an internal audit program. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the records are reliable for preparing consolidated financial statements and other data, and maintaining accountability for assets.

DAVID A. HENTSCHEL
President and Chief Executive Officer
January 28, 1997

VICTOR J. ZALESCHUK
Senior Vice-President, Finance
and Chief Financial Officer

auditors' report

TO THE SHAREHOLDERS OF CANADIAN OCCIDENTAL PETROLEUM LTD.:

We have audited the consolidated balance sheet of Canadian Occidental Petroleum Ltd. (a Canada Corporation) as at December 31, 1996 and 1995 and the consolidated statements of income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 in accordance with generally accepted accounting principles in Canada.

Calgary, Alberta
January 28, 1997

Arthur Andersen & Co
ARTHUR ANDERSEN & CO.
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME

for the three years ended December 31, 1996

	1996	1995	1994
(millions of dollars except per share data)			
Revenues			
Net Sales	**$ 1,362**	$ 1,180	$ 1,015
Gain on Disposition of Assets	**18**	23	28
Interest and Other Income	**18**	25	14
	1,398	1,228	1,057
Costs and Expenses			
Cost of Sales	**395**	376	365
Selling, Administrative and Other Operating	**74**	75	66
Depreciation (Note 6)	**91**	84	71
Depletion and Amortization (Note 6)	**345**	342	279
Exploration	**119**	49	42
Interest, Net (Note 8)	**55**	62	73
	1,079	988	896
Income Before Income Taxes	**319**	240	161
Provision for Income Taxes (Note 12)	**129**	99	65
Net Income	**$ 190**	$ 141	$ 96
Net Income Per Common Share (Note 9)	**$ 1.40**	$ 1.05	$ 0.72

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

December 31, 1996 and 1995

(millions of dollars)	1996	1995
ASSETS		
Current Assets		
Cash and Short-Term Investments	$ 109	$ 45
Accounts Receivable (Note 4)	242	205
Income Taxes Receivable	4	16
Inventories and Supplies (Note 5)	62	53
Prepaid Expenses	11	13
Total Current Assets	428	332
Property, Plant and Equipment (Note 6)	1,955	1,882
Deferred Charges and Other Assets	21	37
	$ 2,404	$ 2,251
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 270	$ 237
Income Taxes Payable	7	–
Accrued Interest Payable	11	10
Dividends Payable	10	8
Total Current Liabilities	298	255
Long-Term Debt (Note 8)	572	674
Deferred Income Taxes	197	183
Dismantlement and Site Restoration Allowance	117	113
Other Deferred Credits and Liabilities	53	56
Minority Interest (Note 3)	44	40
Shareholders' Equity		
Common Shares, no Par Value (Note 9)		
Authorized: Unlimited		
Outstanding: 1996 - 136,155,052 shares;		
1995 - 135,019,852 shares	314	294
Contributed Surplus	14	14
Retained Earnings	715	566
Cumulative Foreign Currency Translation Adjustment	80	56
Total Shareholders' Equity	1,123	930
Contingencies (Note 10)		
	$ 2,404	$ 2,251

Approved on Behalf of the Board:

Director   Director

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the three years ended December 31, 1996

(millions of dollars)	1996	1995	1994
Operating Activities			
Net Income	$ 190	$ 141	$ 96
Charges and Credits to Income not Involving Cash (Note 13)	457	440	355
Exploration Expense	119	49	42
Changes in Non-Cash Working Capital (Note 13)	6	(23)	(43)
Other, Net	(4)	4	4
	768	611	454
Financing Activities			
Proceeds from Long-Term Debt	495	61	179
Repayment of Long-Term Debt	(594)	(286)	(334)
Net Repayment of Short-Term Borrowings	–	(6)	(12)
Dividends	(41)	(30)	(26)
Issue of Common Shares	20	10	3
Issue of Partnership Interests (Note 3)	–	38	–
Proceeds on Termination of Interest Rate Swap Agreements (Note 8)	–	–	33
Other, Net (Note 13)	(3)	(2)	3
	(123)	(215)	(154)
Investing Activities			
Capital and Exploration Expenditures	(546)	(344)	(264)
Acquisitions (Note 3)	(86)	(130)	(5)
Proceeds on Disposition of Assets	40	57	48
Other, Net (Note 13)	9	3	(46)
	(583)	(414)	(267)
Effect of Exchange Rate Changes on Cash	2	(3)	(2)
Increase (Decrease) in Cash	64	(21)	31
Cash - Beginning of Year	45	66	35
Cash - End of Year	$ 109	$ 45	$ 66

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

for the three years ended December 31, 1996

(millions of dollars)	Common Shares (Note 9)	Contributed Surplus	Retained Earnings	Cumulative Foreign Currency Translation Adjustment
DECEMBER 31, 1993	$ 281	$ 14	$ 385	$ 41
Exercise of Stock Options	1	–	–	–
Issue of Common Shares	2	–	–	–
Net Income	–	–	96	–
Common Share Dividends	–	–	(26)	–
Translation Adjustment	–	–	–	31
DECEMBER 31, 1994	284	14	455	72
Exercise of Stock Options	7	–	–	–
Issue of Common Shares	3	–	–	–
Net Income	–	–	141	–
Common Share Dividends	–	–	(30)	–
Translation Adjustment	–	–	–	(16)
DECEMBER 31, 1995	294	14	566	56
Exercise of Stock Options	10	–	–	–
Issue of Common Shares	10	–	–	–
Net Income	–	–	190	–
Common Share Dividends	–	–	(41)	–
Translation Adjustment	–	–	–	24
DECEMBER 31, 1996	$ 314	$ 14	$ 715	$ 80

See accompanying notes to consolidated financial statements.

1. ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated.

Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Occidental Petroleum Ltd. and subsidiary companies and partnerships in which it has a controlling interest ("CanadianOxy" or the "Company"). All subsidiary companies are wholly-owned. The consolidated chemical partnerships are 85 per cent owned as described in Note 3. All material intercompany accounts and transactions have been eliminated. Substantially all exploration, development, production and marketing activities related to oil and gas and alternate fuels are conducted jointly with others and, accordingly, the accounts reflect only CanadianOxy's proportionate interest in such activities.

Inventories and Supplies

Inventories and supplies are stated at the lower of cost or net realizable value. Cost is determined on the first-in first-out method or average basis.

Property, Plant and Equipment

CanadianOxy follows the successful efforts method of accounting for oil and gas exploration and development activities. Acquisition costs of resource properties, exploratory drilling costs and all development costs are capitalized. The cost of exploratory wells found to be dry and all other exploration costs are charged to operations.

The capitalized cost of resource properties and facilities, producing wells and the Syncrude plant are depleted or depreciated using the unit-of-production method over remaining proved reserves derived from estimates prepared or audited by independent engineers. The cost of other plant and equipment is capitalized and depreciated using the straight-line method based on the estimated useful life of the assets which range principally from three to 25 years. Improvements that increase capacity or extend the useful life of these assets are capitalized. Unproved properties are amortized at rates determined in accordance with experience. All property, plant and equipment is periodically evaluated and, if conditions warrant, an impairment provision is provided.

The unit-of-production method is used to provide for the estimated future dismantlement costs of the United States Gulf Coast and North Sea production platforms. Future dismantlement and site restoration costs for manufacturing facilities, the Syncrude Project, pipelines and conventional onshore producing resource properties and facilities are provided over either their estimated remaining lives or their associated proved reserves. Costs are based on engineering estimates of the anticipated method and extent of site restoration in accordance with current legislation, industry practices and costs. The annual charge for dismantlement and site restoration is included in cost of sales.

Carried Interest

Production generated from the Masila Block Development Project (the "Project") in Yemen is segregated by the terms of the Agreement for Petroleum Exploration and Production (the "Agreement") between the Government of Yemen (the "Government"), CanadianOxy and the other Masila Block participants. Production is divided into Cost Recovery Oil and Profit Oil. Cost Recovery Oil provides for the recovery of operating, exploration and development costs in accordance with a formula and is limited to a maximum of 40 per cent of production during each fiscal year. Costs not actually recovered in any year may be carried forward for recovery in future years, and are included in property, plant and equipment in the Consolidated Balance Sheet.

Profit Oil is that portion of production remaining after deducting Cost Recovery Oil. Profit Oil is deliverable to both the Government and the Masila Block participants on a sliding scale basis based on production rates. CanadianOxy's "Working Interest" in the Project is equivalent to the percentage of Profit Oil deliverable to it over the life of the Project which is accounted for using the successful efforts method of accounting.

Profit Oil which is attributable to the Government is considered to be the Government's "Deemed Interest." This includes an amount in respect of all Yemen income taxes payable by CanadianOxy and the other Masila Block participants under the laws of Yemen.

Under the terms of the Agreement, CanadianOxy and the other Masila Block participants fund the Government's share of exploration, development and operating costs. Cost Recovery Oil delivered to CanadianOxy includes a "Carried Interest" component from which CanadianOxy will recover the Government's share of exploration, development and operating costs incurred on the Government's behalf by CanadianOxy. Amounts received pertaining to the Government's Carried Interest are included as revenue and are offset by the actual recoveries representing firstly, the Government's share of the current year's operating costs and, secondly, the Government's share of exploration and development costs. Recoveries of capitalized Carried Interest costs are shown as depreciation or depletion expense.

Production Overlifts and Underlifts
Crude oil and natural gas lifted and sold by CanadianOxy above or below its working interest share in resource properties results in production overlifts and underlifts. Revenues are recorded in accordance with the entitlement method under which overlifts are recorded as liabilities and underlifts are recorded as assets. Settlement will be in kind when the liftings are equalized or in cash when production ceases.

Income Taxes
The deferral method of tax allocation accounting is followed under which the income tax provision is based on the results of operations reported in the accounts. The difference between the income tax provision and taxes currently payable is reflected as "deferred income taxes." Such deferred income taxes have arisen principally due to the differences in the timing of deductions taken for exploration, development and dismantlement and site restoration costs for income tax purposes and the related depreciation, depletion and amortization expense recorded in the financial statements.

Deferred foreign withholding taxes are not provided on the undistributed earnings of foreign incorporated subsidiaries as it is CanadianOxy's intention to invest such earnings indefinitely in foreign countries.

Petroleum Revenue Tax
The United Kingdom petroleum revenue tax ("PRT") is accounted for by the life of field method under which the total PRT payable in respect of each field is estimated and allocated to accounting periods pro rata to taxable profits. The difference between the PRT provision allocated to the current period and PRT currently payable is reflected as a deferred PRT charge or credit. The PRT provision is recorded as a reduction of sales.

Net Income per Common Share
Net income per common share is based on the weighted average number of common shares outstanding during each year and net income.

Foreign Currency Translation
The assets and liabilities of foreign operations considered financially and operationally independent are translated into Canadian dollars from their functional currencies using exchange rates at the balance sheet dates. Revenue and expense items are translated using the average rates of exchange throughout the year. Gains and losses resulting from this translation process are deferred and included in the cumulative foreign currency translation adjustment in shareholders' equity.

Transactions and monetary balances denominated in a currency other than a functional currency are translated into the functional currency using month-end exchange rates. Gains and losses arising from this translation process are included in income.

Foreign denominated long-term monetary liabilities of Canadian operations are translated using exchange rates at the balance sheet dates. The resulting unrealized translation gains and losses are deferred and amortized over the remaining lives of these long-term monetary liabilities. Effective January 1, 1994, CanadianOxy designated its U.S. dollar denominated net debt as a hedge against its net investment in U.S. dollar based self-sustaining foreign operations and, accordingly, gains and losses resulting from the translation of the net debt are deferred and included in the cumulative foreign currency translation adjustment in shareholders' equity. The deferred foreign exchange losses accumulated prior to designation continued to be amortized over the remaining lives of the underlying liabilities.

Capitalized Interest

Interest is capitalized on qualifying assets until put into service, using either the interest rate on borrowings specifically associated with the asset or, if no such specific borrowings exist, the weighted average interest rate on all other borrowings.

Derivative Financial Instruments

CanadianOxy may use derivative financial instruments for the purpose of managing exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices as described in Note 7. CanadianOxy does not use derivatives for trading purposes.

In accordance with CanadianOxy's purpose for using derivatives, they are accounted for as hedges. Changes in forward exchange contracts are reflected in the carrying amount of the obligations and the gains and losses are included in the cumulative foreign currency translation adjustment in shareholders' equity. Net receipts and payments under interest rate swap agreements are reflected in interest expense on an accrual basis. Gains and losses on crude oil and natural gas futures contracts are reflected in revenues at the time the related production is sold.

Cash and Short-Term Investments

Cash and short-term investments include instruments with a maturity of three months or less when purchased.

2. AFFILIATES

Occidental Petroleum Corporation and its subsidiaries ("Occidental") own approximately 30 per cent of the common shares of CanadianOxy.

During 1996, CanadianOxy sold products and services to Occidental in the amount of $4 million (1995 - $50 million; 1994 - $59 million) and purchased products and services in the amount of $11 million (1995 - $nil; 1994 - $6 million) all of which were at competitive prices. At December 31, 1996 and 1995, the amounts due to Occidental were $5 million and $2 million, respectively, and the amounts due from Occidental were $2 million and $19 million, respectively.

In May 1995, CanadianOxy combined its industrial chemicals operations with Occidental's sodium chlorate operations as described in Note 3.

In March 1994, CanadianOxy sold its plastic resins and moulding materials operations to Occidental for cash consideration of $6 million.

3. BUSINESS COMBINATIONS

Effective October 25, 1996, CanadianOxy acquired a 100 per cent interest in producing properties in the Gulf of Mexico for cash consideration of $66 million (U.S. $48 million).

Effective December 31, 1995, CanadianOxy acquired a sodium chlorate facility in Quebec for cash consideration of $16 million.

Effective October 1, 1995, CanadianOxy acquired a 100 per cent interest in producing properties in the Gulf of Mexico for cash consideration of $61 million (U.S. $45 million).

Effective May 1, 1995, CanadianOxy combined its industrial chemicals operations with Occidental's sodium chlorate facility located in Louisiana. CanadianOxy has an 85 per cent interest in the partnerships and is the managing partner. The combination was accounted for as a non-monetary transaction whereby the value assigned to the net assets contributed by Occidental was based on the carrying value of the net assets contributed by CanadianOxy as follows:

Value Assigned to Property, Plant and Equipment	$ 34
Occidental's Cash Contribution for Working Capital	4
Minority Interest in Partnerships	$ 38

The Company has also made minor acquisitions of resource properties primarily in Canada.

The results of operations for each of the combinations have been consolidated since their effective dates. On a pro forma basis, the combinations would not have had a significant effect on CanadianOxy's results of operations for each of the three years in the period ended December 31, 1996.

4. ACCOUNTS RECEIVABLE

	1996	1995
Trade	$ 235	$ 187
Non-Trade	8	19
	243	206
Allowance for Doubtful Accounts	(1)	(1)
	$ 242	$ 205

5. INVENTORIES AND SUPPLIES

	1996	1995
Finished Products	$ 12	$ 7
Work in Process	4	4
Field Supplies	46	42
	$ 62	$ 53

6. PROPERTY, PLANT AND EQUIPMENT

	1996			1995		
	Cost	Accumulated Depreciation, Depletion and Amortization	Net Book Value	Cost	Accumulated Depreciation, Depletion and Amortization	Net Book Value
OIL AND GAS (successful efforts method)						
INTERNATIONAL						
Yemen	$ 425	$ 202	$ 223	$ 317	$ 123	$ 194
Yemen Carried Interest Costs	698	490	208	648	350	298
North Sea	366	124	242	323	87	236
South America	40	10	30	189	163	26
Other	56	24	32	35	12	23
NORTH AMERICA						
United States	716	363	353	777	465	312
Canada	664	325	339	575	297	278
	2,965	1,538	1,427	2,864	1,497	1,367
ALTERNATE FUELS	303	97	206	290	88	202
CHEMICALS	473	162	311	471	168	303
CORPORATE	23	12	11	18	8	10
	$ 3,764	$ 1,809	$ 1,955	$ 3,643	$ 1,761	$ 1,882

Capitalized costs relating to unproved properties and projects which are under construction or development are not depreciated, depleted or amortized. At December 31, 1996 and 1995, such amounts were not significant.

Portions of CanadianOxy's oil and gas assets are located outside North America. These assets and the related operations are subject to the risk of actions by governmental authorities and insurgent groups. It is CanadianOxy's policy to conduct its business so as to minimize such risks.

In March 1996, CanadianOxy and the other Masila Block participants reached an agreement with the Government of Yemen which provided for prepayment of and release from further obligation regarding future dismantlement and site restoration costs, entitlement to revenues for transportation of production from nearby fields, and approval of all costs incurred through December 31, 1995 as recoverable costs. CanadianOxy's $107 million (U.S. $78 million) share of the cash settlement was recorded as a capital expenditure.

7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The nature of CanadianOxy's operations as described in Note 14 and the issuance of long-term debt expose the Company to fluctuations in foreign currency exchange rates, interest rates and commodity prices. CanadianOxy manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical, and through the periodic use of derivative financial instruments and commodity contracts. Board of Directors' approval is required before entering into significant derivative financial instruments and commodity contracts.

CanadianOxy does not have any concentrations of credit risk nor does it hold any financial instruments with off-balance sheet risk of accounting loss except as described below.

(a) Foreign currency rate risk management

A substantial portion of CanadianOxy's operations are located outside Canada. The functional currencies of these operations and related net assets are the United States dollar and, to a lesser extent, United Kingdom pounds sterling. CanadianOxy does not have any material exposure to highly inflationary foreign currencies. In addition to its foreign operations, CanadianOxy is exposed to foreign currency fluctuations on its Canadian based operations to the extent commodity prices received are referenced to United States dollar denominated prices.

CanadianOxy manages its exposure to foreign currency fluctuations by operating in a manner which generally matches its foreign denominated future cash requirements with similarly denominated cash sources. Net revenues from foreign denominated operations together with available borrowing facilities are used to fund similarly denominated capital expenditures and long-term debt repayments. In addition, derivative financial instruments are periodically used to convert long-term debt obligations from Canadian to United States dollars since a significant portion of crude oil revenues are denominated in United States dollars. These activities provide an effective hedge thereby minimizing the Company's exposure to foreign currency fluctuations.

At December 31, 1996 and 1995, CanadianOxy held the following foreign denominated net investments (net of borrowings directly held by foreign operations) and long-term debt. Future foreign denominated cash inflows from these net investments together with available borrowing facilities are expected to be sufficient to fund similarly denominated future capital expenditures and long-term debt repayments.

	1996	1995
UNITED STATES DOLLAR DENOMINATED		
Net Investments	**U.S.$ 662**	U.S.$ 505
Long-Term Debt	**U.S.$ 110**	U.S.$ 110
UNITED KINGDOM POUNDS STERLING DENOMINATED		
Net Investments	**£ 81**	£ 93
Long-Term Debt	**£ –**	£ –

At December 31, 1996, CanadianOxy held the following foreign currency related derivative financial instruments. These are described in Note 8 together with the obligations to which they relate.

	Amount Receivable	Amount Payable	Maturity Date
Forward Exchange Contracts	Cdn.$50	U.S.$41	January 1997
Forward Exchange Contracts	Cdn.$50	U.S.$36	May 1998
Exchange Contract	Cdn.$50	U.S.$37	November 2006

These contracts represent obligations to exchange principal and interest amounts between CanadianOxy and the counterparties. Credit risk does not exist as the contracts provide for the right of offset in the event of nonperformance.

(b) Interest rate risk management

CanadianOxy manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings, and the periodic use of derivative financial instruments.

At December 31, 1996, CanadianOxy had fixed the interest rates on 88 per cent (1995 - 71 per cent) of its long-term obligations at an effective rate of 7.8 per cent (1995 - 7.8 per cent) through fixed rate borrowings and the following derivative financial instruments:

	Principal Amount	Effective Rate	Maturity Date
Forward Exchange Contracts	U.S.$41	6.9%	January 1997
Forward Exchange Contracts	U.S.$36	5.6%	May 1998
Exchange Contract	U.S.$37	6.75%	November 2006

These financial instruments are described in Note 8 together with the obligations to which they relate.

(c) Commodity price risk management

CanadianOxy generally sells its crude oil and natural gas under short-term market based contracts, except for North Sea natural gas which is sold under long-term contracts covering the life of the field with prices redetermined periodically in accordance with a formula based on reference indices. Occasionally, derivative financial instruments and commodity futures contracts, options and swaps may be used to hedge the impact of crude oil and natural gas price fluctuations. During 1996 and 1995, no significant commodity hedging arrangements were utilized by CanadianOxy.

Effective January 1, 1995, CanadianOxy and a third party entered into a partnership arrangement to market CanadianOxy's Canadian crude oil and third party crude oil. The partnerships use various instruments to minimize exposure to price fluctuations on merchandised crude oil. These instruments are acquired through the New York Mercantile Exchange (NYMEX) and the over-the-counter market. In addition, the partnerships use derivative financial instruments with Canadian chartered banks to minimize foreign currency exchange rate fluctuations on crude oil purchased in Canadian dollars. CanadianOxy's 50 per cent interest in the partnerships have been proportionately consolidated and are not significant to CanadianOxy's financial position or results of operations.

(d) Fair value of financial instruments

The reported values of financial instruments, including derivative financial instruments, at December 31, 1996 and 1995 approximate their fair values. The carrying amounts of cash and short-term investments, amounts receivable and short-term obligations approximate their fair value because of the near-term maturity of those instruments. The estimated fair value of long-term debt and derivative financial instruments is based on public trading values where available, or where not available, with reference to values for similarly traded instruments with similar features.

8. LONG-TERM DEBT AND SHORT-TERM BORROWINGS

	1996	1995
Syndicated Term Loans (a)	**$ –**	$ 198
Unsecured Five-Year Term Loan, due 1996 (b)	**–**	68
Unsecured Five-Year Debentures, due 1997 (c)	**121**	121
Unsecured Five-Year Senior Notes, due 1997 (d)	**82**	82
Unsecured Five-Year Debentures, due 1998 (e)	**100**	101
Unsecured Retractable Debentures, due 1999 (f)	**26**	26
Unsecured Ten-Year Debentures, due 2001 (g)	**75**	78
Unsecured Five-Year Term Loan, due 2001 (h)	**68**	–
Unsecured Ten-Year Redeemable Debentures, due 2006 (i)	**100**	–
	$ 572	$ 674

(a) Syndicated term loans

During 1996, CanadianOxy maintained the following unsecured revolving term loan facilities:

(i) $500 million with a bank syndicate which matures July 31, 2003 with interest payable at a floating rate. At December 31, 1996 and 1995, $nil and $198 million (U.S. $145 million), respectively, were outstanding with respect to this facility. The interest rate averaged 5.9 per cent and 6.7 per cent in 1996 and 1995, respectively. During the third quarter of 1993, the Company entered into a series of interest rate swap agreements wherein the effective rate of interest on U.S. $250 million of this facility was fixed until July 2000. In May 1994, CanadianOxy terminated the swap agreements for proceeds of $33 million (U.S. $24 million). This amount was deferred and amortized to income over the term of the underlying loan facility. At December 31, 1996, the gain was fully amortized.

(ii) $100 million with a Canadian chartered bank which matures May 31, 2002 with interest payable at a floating rate. At December 31, 1996 and 1995, no amounts were outstanding under this facility.

(b) Unsecured five-year term loan, due 1996

During 1991, CanadianOxy entered into a five-year U.S. $50 million unsecured term loan agreement with a Canadian chartered bank with interest payable at a floating rate. During December 1991, CanadianOxy entered into a swap agreement with a Canadian chartered bank whereby interest payable was effectively fixed at a rate of 7.2 per cent for the term of the loan. The loan and swap agreement were settled on maturity in October 1996.

(c) Unsecured five-year debentures, due 1997

During 1992, CanadianOxy issued $115 million of unsecured five-year debentures. Interest is payable semi-annually at a rate of 8.4 per cent with the principal to be repaid January 30, 1997. Concurrently, $50 million of this obligation was converted through forward exchange contracts with a Canadian chartered bank to a U.S. $41 million liability bearing interest at an effective rate of 6.9 per cent. CanadianOxy intends to refinance the obligation with existing available long-term debt facilities and, accordingly, it has not been included in current liabilities at December 31, 1996.

(d) Unsecured five-year senior notes, due 1997

During 1992, CanadianOxy completed a U.S. $60 million private placement of unsecured five-year senior notes. Interest is payable semi-annually at a rate of 8.2 per cent with the principal to be repaid April 1, 1997. CanadianOxy intends to refinance the obligation with existing available long-term debt facilities and, accordingly, it has not been included in current liabilities at December 31, 1996.

(e) Unsecured five-year debentures, due 1998

During 1993, CanadianOxy issued $100 million of unsecured five-year debentures. Interest is payable semi-annually at a rate of 7.7 per cent with the principal to be repaid May 7, 1998. Subsequently, $50 million of this obligation was converted through forward exchange contracts with a Canadian chartered bank to a U.S. $36 million liability bearing interest at an effective rate of 5.6 per cent.

(f) Unsecured retractable debentures, due 1999

At December 31, 1996 and 1995, unsecured retractable debentures in the amount of $26 million were outstanding (net of $28 million face value of debentures repurchased). In March 1994, CanadianOxy reduced the amount outstanding by $26 million and reset the interest rate at 6.6 per cent (11.6 per cent prior thereto) for the remaining period to maturity on March 1, 1999.

(g) Unsecured ten-year debentures, due 2001

During 1991, CanadianOxy issued $75 million of unsecured ten-year debentures. Interest is payable semi-annually at a rate of 10.9 per cent with the principal to be repaid June 7, 2001. In July 1991, $35 million of this obligation was converted through forward exchange contracts with a Canadian chartered bank to a U.S. $28 million liability bearing interest at an effective rate of 8.9 per cent. The forward exchange contracts were settled on maturity in June 1996.

(h) Unsecured five-year term loan, due 2001

During 1996, CanadianOxy entered into a five-year U.S. $50 million unsecured term loan agreement with a Canadian chartered bank. Interest is payable at a floating rate with the principal to be repaid October 31, 2001.

(i) Unsecured ten-year redeemable debentures, due 2006

During 1996, CanadianOxy issued $100 million of unsecured ten-year redeemable debentures. Interest is payable semi-annually at a rate of 6.85 per cent with the principal to be repaid November 15, 2006. In December 1996, $50 million of this obligation was converted through an interest rate and currency exchange contract with a Canadian chartered bank to a U.S. $37 million liability bearing interest at an effective rate of 6.75 per cent for the term of the loan. The debentures are redeemable, in whole or in part, at any time at the option of the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a Government of Canada Bond having a term to maturity equal to the remaining term of the debenture plus 0.10 per cent.

(j) Repayments and interest

Required long-term debt repayments, before considering the intended refinancings in 1997, for the next five years are: 1997 - $203 million; 1998 - $100 million; 1999 - $26 million; 2000 - $nil; and 2001 - $143 million. Interest expense on long-term debt was $46 million, $54 million and $68 million in 1996, 1995 and 1994, respectively.

(k) Debt covenants

The majority of debt instruments contain covenants pertaining to the Company's net worth, certain ratios and the ability to grant security. At December 31, 1996, all covenants have been met.

(l) Short-term borrowings

CanadianOxy has unsecured operating loan facilities of approximately $293 million and a commercial paper program of $200 million which is supported by unused lines of credit. Interest is payable at floating rates and the facilities are subject to periodic reviews. During 1996 and 1995, the weighted average interest rate on short-term borrowings was 4.9 per cent and 6.3 per cent, respectively.

9. CAPITAL

(a) Authorized capital

Authorized share capital consists of an unlimited number of common shares of no par value and an unlimited number of Class A preferred shares of no par value issuable in series.

On May 8, 1996, shareholders of the Company approved a special resolution to amend the Articles of the Company to subdivide each of the authorized common shares without par value, whether issued or unissued, into two common shares without par value. The subdivision of the common shares became effective May 28, 1996. Share and per share figures, including restated prior period figures, are presented after giving effect to the subdivision of the common shares.

(b) Issued common shares and dividends

	1996	1995	1994
(thousands of shares)			
Beginning of Year	**135,020**	134,309	134,064
Exercise of Stock Options	**655**	543	132
Issue of Common Shares for Cash	**480**	168	113
End of Year	**136,155**	135,020	134,309
Dividends per Common Share	**$ 0.30**	$ 0.225	$ 0.20

During 1996, CanadianOxy issued 480,180 (1995 - 85,800) common shares for cash consideration of $10.3 million (1995 - $1.7 million) under a Dividend Reinvestment Plan. At December 31, 1996, 434,020 common shares were reserved for issuance under this plan.

During 1995, CanadianOxy issued 82,200 (1994 - 113,000) common shares for cash consideration of $1.6 million (1994 - $1.8 million) pursuant to an employee flow-through share arrangement.

(c) Stock options

The following options to purchase common shares have been granted to certain officers and key employees. Under the stock option plan, options vest over four years and are exercisable on a cumulative basis over 10 years. At the time of grant, the exercise price is equal to the market price.

	Options	Weighted Average Exercise Price Per Share
(thousands except per share amounts)		
DECEMBER 31, 1993	1,294	$ 13
Granted	354	$ 13
Exercised	(132)	$ 9
DECEMBER 31, 1994	1,516	$ 13
Granted	524	$ 18
Exercised	(543)	$ 12
Forfeited	(55)	$ 13
DECEMBER 31, 1995	1,442	$ 15
Granted	**416**	**$ 23**
Exercised	**(655)**	**$ 14**
Forfeited	**(53)**	**$ 17**
DECEMBER 31, 1996	**1,150**	**$ 18**
Options exercisable at end of year		
1994	682	$ 12
1995	698	$ 14
1996	**511**	**$ 17**

The outstanding options were granted at prices ranging from $8 to $23 per common share and have a weighted average remaining contractual life of eight years. At December 31, 1996, 1,433,000 common shares were reserved for the granting of additional options.

10. CONTINGENCIES

At December 31, 1996, there were a number of lawsuits and claims pending against the Company, the ultimate results of which cannot be ascertained at this time. Costs are recorded as they are incurred or become determinable. Management is of the opinion that any amounts assessed against the Company would not have a material adverse effect upon its consolidated financial position or the results of its operations.

11. EMPLOYEE PENSION PLANS

CanadianOxy maintains contributory and non-contributory defined benefit pension plans and a defined contribution pension plan which together cover substantially all employees. The pension costs for the defined benefit plans are determined by independent actuarial valuations and are funded in accordance with federal and provincial government regulations by contributions to trust funds which are administered by an independent trustee. Assets of the defined benefit pension funds are invested in investment funds, consisting primarily of equities and fixed income bonds.

Net pension expense for the defined benefit pension plans has been determined as follows:

	1996	1995	1994
Cost of Benefits Earned by Employees During the Year	$ 3	$ 3	$ 3
Current Year's Interest Cost on Benefits Earned	6	6	5
Actual Return on Pension Plan Assets	(7)	(6)	–
Net Amortization and Deferral	3	2	(3)
Net Pension Expense	$ 5	$ 5	$ 5

The following table sets forth the funded status of the defined benefit pension plans, the amounts recognized in the Consolidated Balance Sheet at December 31, 1996 and 1995, and the assumptions used in the determination of the projected benefit obligation and net pension expense.

	1996	1995
Actuarial Present Value of Benefit Obligations:		
Benefits Based on Service to Date and Present Pay Levels		
Vested	$ 79	$ 72
Non-vested	1	–
Accumulated Benefit Obligation	80	72
Additional Benefits Related Principally to Projected Pay Increases	12	14
Total Projected Benefit Obligation Based on Service to Date	92	86
Pension Plan Assets at Fair Value	86	76
Projected Benefit Obligation in Excess of Pension Plan Assets	(6)	(10)
Unamortized Gain at Transition	(1)	(1)
Unamortized Past Service Costs	8	9
Unamortized Past Net Experience Losses	–	3
Pension Asset Recognized in the Consolidated Balance Sheet	$ 1	$ 1
Discount Rate	7.0%	7.0%
Long-Term Rate of Employee Compensation Increase	4.5%	5.5%
Long-Term Annual Rate of Return on Plan Assets	7.0%	7.0%

At December 31, 1996, pension plan assets were in excess of accumulated benefit obligations to date in each plan.

The Company has non-contributory executive benefit plans which provide supplemental benefits to the extent that the benefits under the pension plans are limited by statutory guidelines. The plans provide benefits based on length of service and final average earnings.

12. INCOME TAXES

Income before income taxes generated from Canadian and foreign operations are as follows:

	1996	1995	1994
Income Before Income Taxes			
Canadian	$ 28	$ 45	$ 14
Foreign	291	195	147
	$ 319	$ 240	$ 161

The Canadian and foreign components of the provision for income taxes based on the jurisdiction in which income is taxed are as follows:

	1996	1995	1994
Current			
Canadian	$ 2	$ 3	$ 3
Foreign	117	75	55
	119	78	58
Deferred			
Canadian	1	(6)	(11)
Foreign	9	27	18
	10	21	7
Total			
Canadian	3	(3)	(8)
Foreign	126	102	73
Provision for Income Taxes	$ 129	$ 99	$ 65

Foreign is principally comprised of Yemen, United States, United Kingdom, Ecuador, Ireland, Netherlands and Nigeria.

The provision for income taxes in the Consolidated Statement of Income varies from the provision for income taxes calculated at the Canadian statutory tax rate. The following table reconciles the main differences:

	1996	1995	1994
Income Before Income Taxes	$ 319	$ 240	$ 161
Provision for Income Taxes Computed at the Canadian Statutory Rate	$ 142	$ 107	$ 71
Add (Deduct) the Tax Effect of:			
Royalties, Rentals and Similar Payments to Provincial Governments	14	11	16
Resource Allowance and Provincial Tax Rebates	(16)	(10)	(12)
Depletion Allowance on Oil and Gas Income	–	(2)	(8)
Lower Tax Rates on Foreign Operations	(18)	(10)	(7)
Permanent Differences Between Accounting and Tax Assets	1	(6)	4
Large Corporation Tax	2	2	3
Capital Losses Carried Forward	1	9	–
Other	3	(2)	(2)
Provision for Income Taxes	$ 129	$ 99	$ 65

The provision for deferred income taxes arises from timing differences in the recognition of revenue and expense items for income tax and financial statement purposes. The income tax effects of these differences are as follows:

	1996	1995	1994
Exploration and Development Expenditures	$ 9	$ (22)	$ 2
Depreciable Property, Plant and Equipment	(1)	12	–
Dismantlement and Site Restoration	(4)	(2)	(4)
Deferred Income	(2)	12	1
Capitalized Interest	(5)	(6)	(1)
Utilization of Prior Years' Operating Losses	10	30	10
Foreign Taxes	4	–	–
Other	(1)	(3)	(1)
Provision for Deferred Income Taxes	$ 10	$ 21	$ 7

13. CASH FLOWS

(a) Charges and credits to income not involving cash

	1996	1995	1994
Depreciation, Depletion and Amortization	$ 436	$ 426	$ 350
Deferred Income Taxes	10	21	7
Amortization of Deferred Foreign Exchange Losses	15	20	15
Dismantlement and Site Restoration Allowance	16	13	13
Minority Interest in Net Income	6	4	–
Gain on Disposition of Assets	(18)	(23)	(28)
Amortization of Gain on Termination of Interest Rate Swap Agreements	(8)	(16)	(8)
Other, Net	–	(5)	6
	$ 457	$ 440	$ 355

(b) Changes in non-cash working capital

Changes in non-cash working capital items increased (decreased) cash as follows:

	1996	1995	1994
Accounts Receivable	$ (37)	$ (78)	$ (63)
Income Taxes Receivable	12	2	(4)
Inventories and Supplies	(9)	(5)	(4)
Prepaid Expenses	2	(5)	8
Accounts Payable and Accrued Liabilities	33	80	(19)
Income Taxes Payable	7	–	–
Accrued Interest Payable	1	(1)	(9)
Dividends Payable	2	1	–
Current Portion of Long-Term Debt	–	(1)	–
	11	(7)	(91)
Effect of Foreign Exchange Rate Changes on Non-Cash Working Capital	2	(1)	–
	$ 13	$ (8)	$ (91)

These changes relate to the following activities:

	1996	1995	1994
Operating Activities	$ 6	$ (23)	$ (43)
Investing Activities	6	14	(48)
Financing Activities	1	1	–
	$ 13	$ (8)	$ (91)

Amounts relating to Investing and Financing activities are included in the respective "other" classifications in the Consolidated Statement of Cash Flows.

(c) Other cash flow information

	1996	1995	1994
Interest Paid	$ 55	$ 69	$ 84
Income Taxes Paid	$ 100	$ 72	$ 53

14. GEOGRAPHIC AND INDUSTRY SEGMENTS

CanadianOxy conducts its operations through three industry segments: oil and gas, alternate fuels and chemicals. Oil and gas operations include the exploration for and the development, production and marketing of crude oil, natural gas and related products. The alternate fuels operations are engaged in the development and production of synthetic crude oil from oil sands. The chemicals operations consists of the manufacture, marketing and distribution of industrial chemicals, principally sodium chlorate, chlorine, caustic soda and muriatic acid.

Net income of geographic and industry segments exclude interest income, interest expense, unallocated corporate expenses, foreign exchange gains and losses and amortization of the gain on termination of interest rate swap agreements, but include gains and losses from dispositions of segment assets. In 1996, export sales from Canada totalled $101 million (1995 - $127 million; 1994 - $89 million).

"Other" International during 1996 principally includes Indonesia, Vietnam, Nigeria and Kazakstan.

Identifiable assets are those used in the operations of the segments. Corporate assets are those assets which are not directly attributable to a specific operating segment.

Notes to the following tables:

(a) The Canadian chemicals operations sold finished products to the United States chemicals operations in the amounts of $82 million and $48 million in 1996 and 1995, respectively. The sales were made at market prices less an amount for selling costs. The sales are included in the Canadian segment results, however, the purchase and resale to external customers by the United States operations are excluded from the United States segment results.

(b) Includes income from gas processing facilities.

(c) Includes interest income, foreign exchange gains and losses and amortization of gains on termination of interest rate swap agreements recognized on certain debt repayments.

(d) Includes corporate general and administrative expenses.

(e) The provision for (recovery of) income taxes for foreign geographic operating locations is based on in-country taxes on foreign income. For oil and gas locations with no operating activities, the provision is based on the tax jurisdiction of the entity undertaking the activity.

(f) Includes a gain of $4 million on favorable settlement of a natural gas underlift position and a $6 million reduction of a dismantlement over-provision.

(g) Includes a write-down of $6 million in the carrying value of the polyvinyl chloride facility.

(h) Represents a gain on disposition of the plastic resins and moulding materials operations.

(i) Includes proceeds from an insurance settlement.

1996 GEOGRAPHIC AND INDUSTRY SEGMENTS

	INTERNATIONAL				NORTH AMERICA			CHEMICALS		CORP.	TOTAL
	Oil and Gas						Alt. Fuels				
	Yemen	North Sea	South America	Other	United States	Canada	Canada	Canada	United States		
Net Sales	$ 522	$ 60	$ 21	$ –	$ 214	$ 163	$ 127	$ 198(a)	$ 57(a)	$ –	$ 1,362
Gain on Disposition of Assets	–	–	1	–	6	11	–	–	–	–	18
Interest and Other Income	–	2	–	–	2	9(b)	–	2	–	3(c)	18
Total Revenues	522	62	22	–	222	183	127	200	57	3	1,398
Cost of Sales	38	14	10	–	43	62	74	120	34	–	395
Selling, Administrative and Other Operating	4	1	–	9	9	11	3	11	3	23(d)	74
Depreciation, Depletion and Amortization	212	27	3	12	87	57	11	19	4	4	436
Exploration	–	25	5	38	27	24	–	–	–	–	119
Interest, Net	–	–	–	–	–	–	–	–	–	55	55
Income Before Income Taxes	268	(5)	4	(59)	56	29	39	50	16	(79)	319
Provision for (Recovery of) Income Taxes (e)	107	–	2	(19)	20	18	12	21	6	(38)	129
Net Income (Loss)	$ 161	$ (5)	$ 2	$ (40)	$ 36	$ 11	$ 27	$ 29	$ 10	$ (41)	$ 190
Identifiable Assets	$ 537	$ 256	$ 45	$ 65	$ 451	$ 421	$ 221	$ 266	$ 111	$ 31	$ 2,404
Additions to Property, Plant and Equipment											
Development Expenditures	$ 156	$ 9	$ 5	$ 16	$ 60	$ 78	$ 15	$ 28	$ 8	$ 4	$ 379
Exploration Expenditures	–	25	7	44	35	55	1	–	–	–	167
Acquisitions	–	–	–	–	66	20	–	–	–	–	86
Exploration Expense	–	(25)	(5)	(38)	(27)	(24)	–	–	–	–	(119)
Capital Additions	$ 156	$ 9	$ 7	$ 22	$ 134	$ 129	$ 16	$ 28	$ 8	$ 4	$ 513
Property, Plant and Equipment											
Cost	$ 1,123	$ 366	$ 40	$ 56	$ 716	$ 664	$ 303	$ 387	$ 86	$ 23	$ 3,764
Accumulated Depreciation, Depletion and Amortization	692	124	10	24	363	325	97	156	6	12	1,809
Net Book Value	$ 431	$ 242	$ 30	$ 32	$ 353	$ 339	$ 206	$ 231	$ 80	$ 11	$ 1,955

1995 GEOGRAPHIC AND INDUSTRY SEGMENTS

	INTERNATIONAL				NORTH AMERICA			CHEMICALS		CORP.	TOTAL
	Oil and Gas						Alt. Fuels				
	Yemen	North Sea	South America	Other	United States	Canada	Canada	Canada	United States		
Net Sales	$ 499	$ 59	$ 23	$ –	$ 127	$ 128	$ 111	$ 207(a)	$ 26(a)	$ –	$ 1,180
Gain on Disposition of Assets	–	–	–	1	–	14	8	–	–	–	23
Interest and Other Income	–	–	–	–	16(f)	6(b)	–	–	1	2(c)	25
Total Revenues	499	59	23	1	143	148	119	207	27	2	1,228
Cost of Sales	38	13	11	–	33	59	75	124	23	–	376
Selling, Administrative and Other Operating	5	1	1	12	7	10	2	11	2	24(d)	75
Depreciation, Depletion and Amortization	247	28	4	1	50	59	7	24(g)	2	4	426
Exploration	3	8	3	19	10	6	–	–	–	–	49
Interest, Net	–	–	–	–	–	–	–	–	–	62	62
Income Before Income Taxes	206	9	4	(31)	43	14	35	48	–	(88)	240
Provision for (Recovery of) Income Taxes (e)	79	4	2	(13)	16	12	10	19	–	(30)	99
Net Income (Loss)	$ 127	$ 5	$ 2	$ (18)	$ 27	$ 2	$ 25	$ 29	$ –	$ (58)	$ 141
Identifiable Assets	$ 594	$ 254	$ 37	$ 28	$ 385	$ 294	$ 211	$ 264	$ 100	$ 84	$ 2,251
Additions to Property, Plant and Equipment											
Development Expenditures	$ 51	$ 16	$ 4	$ 8	$ 46	$ 53	$ 11	$ 9	$ 43	$ 3	$ 244
Exploration Expenditures	16	8	3	20	23	26	4	–	–	–	100
Acquisitions	–	–	–	–	61	19	–	16	34	–	130
Exploration Expense	(3)	(8)	(3)	(19)	(10)	(6)	–	–	–	–	(49)
Capital Additions	$ 64	$ 16	$ 4	$ 9	$ 120	$ 92	$ 15	$ 25	$ 77	$ 3	$ 425
Property, Plant and Equipment											
Cost	$ 965	$ 323	$ 189	$ 35	$ 777	$ 575	$ 290	$ 393	$ 78	$ 18	$ 3,643
Accumulated Depreciation, Depletion and Amortization	473	87	163	12	465	297	88	166	2	8	1,761
Net Book Value	$ 492	$ 236	$ 26	$ 23	$ 312	$ 278	$ 202	$ 227	$ 76	$ 10	$ 1,882

1994 GEOGRAPHIC AND INDUSTRY SEGMENTS

	INTERNATIONAL				NORTH AMERICA			CHEM.	CORP.	TOTAL
	Oil and Gas						Alt. Fuels			
	Yemen	North Sea	South America	Other	United States	Canada	Canada	Canada		
Net Sales	$ 381	$ 64	$ 22	$ –	$ 129	$ 138	$ 104	$ 177	$ –	$ 1,015
Gain on Disposition of Assets	–	–	–	–	–	25	–	3(h)	–	28
Interest and Other Income	–	–	–	–	2	6(b)	5(i)	1	–	14
Total Revenues	381	64	22	–	131	169	109	181	–	1,057
Cost of Sales	39	16	14	–	32	59	81	124	–	365
Selling, Administrative and Other Operating	7	1	–	11	6	9	3	12	17(d)	66
Depreciation, Depletion and Amortization	195	25	2	5	51	43	8	17	4	350
Exploration	3	1	–	19	13	6	–	–	–	42
Interest, Net	–	–	–	–	–	–	–	–	73	73
Income Before Income Taxes	137	21	6	(35)	29	52	17	28	(94)	161
Provision for (Recovery of) Income Taxes (e)	54	8	3	(13)	10	22	6	11	(36)	65
Net Income (Loss)	$ 83	$ 13	$ 3	$ (22)	$ 19	$ 30	$ 11	$ 17	$ (58)	$ 96
Identifiable Assets	$ 782	$ 273	$ 36	$ 22	$ 330	$ 261	$ 199	$ 260	$ 108	$ 2,271
Additions to Property, Plant and Equipment										
Development Expenditures	$ 71	$ 2	$ 8	$ 14	$ 48	$ 38	$ 10	$ 7	$ 2	$ 200
Exploration Expenditures	14	–	–	25	16	9	–	–	–	64
Acquisitions	–	–	–	–	–	5	–	–	–	5
Exploration Expense	(3)	(1)	–	(19)	(13)	(6)	–	–	–	(42)
Capital Additions	$ 82	$ 1	$ 8	$ 20	$ 51	$ 46	$ 10	$ 7	$ 2	$ 227
Property, Plant and Equipment										
Cost	$ 926	$ 318	$ 191	$ 28	$ 737	$ 558	$ 286	$ 369	$ 28	$ 3,441
Accumulated Depreciation, Depletion and Amortization	235	61	164	12	473	301	91	141	18	1,496
Net Book Value	$ 691	$ 257	$ 27	$ 16	$ 264	$ 257	$ 195	$ 228	$ 10	$ 1,945

15. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant differences from United States principles are as follows:

(a) In accordance with U.S. principles, exchange gains and losses arising on translation of long-term monetary liabilities, unless designated as a hedge, are included in income currently instead of deferred and amortized over the lives of such long-term liabilities.

(b) In accordance with U.S. principles, deferred income taxes are recognized, at enacted rates, to reflect the future effects of tax carry forwards and temporary differences between the tax bases of assets and liabilities and their financial reporting amounts. In addition, assets and liabilities related to purchased businesses are restated to eliminate the previously used net of tax accounting for such assets and liabilities, resulting in higher carrying values and therefore higher charges for depreciation, depletion and amortization, but lower income tax expense.

(c) In accordance with U.S. principles, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable based on expected future cash flows. When an impairment has occurred, a loss is recognized using a fair value based model. Application of this method of accounting for assessing impairment of long-lived assets, which was adopted prospectively effective December 31, 1995, has not resulted in the recognition of any impairment losses on long-lived assets.

The impact of these differences on the consolidated financial statements is as follows:

Consolidated Statement of Income

	1996	1995	1994
Net Income as Reported in Accordance with Canadian Principles	$ 190	$ 141	$ 96
(a) Foreign Currency Translation	15	20	21
Less: Associated Deferred Income Taxes	(6)	(9)	(9)
(b) Accounting for Income Taxes			
Depreciation Expense	(4)	(4)	(5)
Deferred Income Taxes	4	3	4
Net Income in Accordance with U.S. Principles	$ 199	$ 151	$ 107
Net Income per Common Share in Accordance with U.S. Principles	$ 1.46	$ 1.11	$ 0.80

Consolidated Balance Sheet

	1996		1995	
	Canadian Principles	U.S. Principles	Canadian Principles	U.S. Principles
Property, Plant and Equipment, Net	$ 1,955	$ 1,971	$ 1,882	$ 1,918
Deferred Foreign Exchange	$ –	$ –	$ 15	$ –
Deferred Income Tax Assets	$ –	$ 155	$ –	$ 145
Deferred Income Tax Liabilities	$ 197	$ 358	$ 183	$ 348
Retained Earnings	$ 715	$ 725	$ 566	$ 567

Consolidated Statement of Cash Flows

In accordance with U.S. principles, geological and geophysical costs in the amounts of $28 million, $15 million and $15 million in 1996, 1995 and 1994, respectively, that are included in exploration expense would be reported in operating activities as opposed to investing activities in the Consolidated Statement of Cash Flows.

Additional Disclosures

(a) Temporary differences which give rise to deferred income tax assets and liabilities at December 31, 1996 and 1995 are as follows:

	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
	1996	1995	1996	1995
Property, Plant and Equipment	$ 25	$ 20	$ 329	$ 277
Dismantlement and				
Site Restoration Allowance	44	36	–	–
Loss Carry Forward	52	46	–	–
Deferred Income	–	–	29	60
Foreign Exchange	7	17	–	10
Resource Allowance	17	25	–	–
Recoverable Taxes	29	23	–	–
Other	6	7	–	1
	180	174	358	348
Valuation Allowance	(25)	(29)	–	–
	$ 155	$ 145	$ 358	$ 348

At December 31, 1996, the Company had available unused tax loss carry forwards totalling $152 million (1995 -$136 million) which expire at various times to 2003.

(b) The Company provides stock-based compensation in the form of stock options to certain officers and key employees. At the time of grant, the exercise price is equal to the market price and, accordingly, no compensation expense is recognized under the Company's accounting policies. Under U.S. principles, a compensation cost is measured at the grant date in accordance with a fair value based method utilizing an option-pricing model. Companies electing not to recognize the compensation cost determined under the fair value based method must make pro forma disclosures of net income and net income per share as if that method of accounting had been applied. Had CanadianOxy applied the fair value based method, net income and net income per common share in accordance with U.S. principles for 1996 and 1995 would not have differed materially from the amounts reported.

(c) The Company provides certain post employment benefits other than pensions to its employees. Such future costs are fully accrued as deferred compensation earned during the period that employees render service, however, no funding of these future obligations is provided. Future liabilities are not material to the ongoing operations of the Company.

(d) The Company holds certain debt and equity securities which would be classified as "available for sale securities" under U.S. principles and which would be revalued to their current market values with the unrealized gains and losses being reported in a separate component of shareholders' equity. No material gains or losses were unrecorded at December 31, 1996 and 1995.

QUARTERLY FINANCIAL DATA

Summarized quarterly financial data for 1996 and 1995 is as follows:

	QUARTER ENDED							
	March 31		June 30		September 30		December 31	
	1996	1995	1996	1995	1996	1995	1996	1995
(millions of dollars except per share data)								
Net Sales	$ 319	$ 278	$ 318	$ 306	$ 343	$ 285	$ 382	$ 311
Operating Profit								
Oil and Gas (5) (6)	$ 83	$ 59	$ 81	$ 71	$ 65	$ 60	$ 64	$ 55
Alternate Fuels (7)	8	2	4	10	12	8	15	15
Chemicals (8)	14	13	15	13	22	15	15	7
	105	74	100	94	99	83	94	77
Corporate Expenses and Interest	20	22	21	19	19	22	19	25
Income Tax Expense	35	22	32	34	34	23	28	20
Net Income	$ 50	$ 30	$ 47	$ 41	$ 46	$ 38	$ 47	$ 32
Per Common Share: (2)								
Net Income	$ 0.37	$ 0.21	$ 0.35	$ 0.31	$ 0.34	$ 0.29	$ 0.34	$ 0.24
Dividends Declared (3) (4)	$ 0.075	$ 0.05	$ 0.075	$ 0.05	$ 0.075	$0.0625	$ 0.075	$0.0625
Common Share Prices:								
The Toronto Stock Exchange								
High	$ 23.44	$ 18.75	$ 24.73	$ 22.82	$ 23.80	$ 22.63	$ 25.20	$ 24.00
Low	$ 21.25	$ 15.32	$ 22.80	$ 17.88	$ 21.35	$ 20.44	$ 21.80	$ 18.50
American Stock Exchange								
High (U.S.$)	$ 17.31	$ 13.25	$ 19.19	$ 16.57	$ 17.50	$ 16.69	$ 18.75	$ 17.50
Low (U.S.$)	$ 15.50	$ 10.82	$ 16.63	$ 13.00	$ 15.63	$ 14.94	$ 16.00	$ 13.75

Notes:

(1) At December 31, 1996, there were 1,235 registered holders of common shares and 136,155,052 common shares outstanding.

(2) On May 8, 1996, shareholders of the Company approved a special resolution to amend the Articles of the Company to subdivide each of the authorized common shares without par value, whether issued or unissued, into two common shares without par value. The subdivision of the common shares became effective May 28, 1996. Share and per share amounts reflect this subdivision.

(3) In February 1997, the Board of Directors declared a regular quarterly dividend of $0.075 per common share, payable April 1, 1997 to shareholders of record on March 10, 1997.

(4) The Income Tax Act of Canada requires that the Company deduct a withholding tax from all dividends remitted to non-residents. In accordance with the Canada-U.S. Tax Treaty, the withholding tax is 15 per cent on dividends remitted by the Company to residents of the United States, except in the case of an affiliated company where the withholding tax is 10 per cent. The August 31, 1994 Protocol to the Canada-U.S. Tax Treaty provides for a reduction in the withholding tax rate assessed on dividends paid to affiliates to five per cent. The Protocol provides for a three year phase-in from the date the Protocol was ratified.

(5) Gains of $6 million and $5 million were recorded on the disposition of Canadian resource properties during the second and third quarters of 1996, respectively.

(6) Gains of $14 million were recorded on the disposition of Canadian resource properties during the third quarter of 1995.

(7) The annual plant turnaround occurred in the second quarter of 1996 whereas it occurred in the first quarter of 1995. A gain of $8 million was recorded on the disposition of certain oil sands leases in the fourth quarter of 1995.

(8) A write-down of $6 million on the polyvinyl chloride facility was recorded in the fourth quarter of 1995.

OIL AND GAS PRODUCING ACTIVITIES

The following oil and gas information is provided in accordance with the United States Statement of Financial Accounting Standards Number 69 "Disclosures about Oil and Gas Producing Activities".

A. RESERVE QUANTITY INFORMATION

Reserves of oil include condensate and natural gas liquids. Conventional crude oil and natural gas reserve estimates are determined through analysis of geological and engineering data which has demonstrated with reasonable certainty that they are recoverable from known oil and gas fields under economic and operating conditions at December 31 of each year. The calculation of reserves for synthetic crude oil for the Syncrude Project is based on CanadianOxy's participating interest in the production permit.

The net proved reserves of crude oil and natural gas are determined by deducting the mineral owners' and/or governments' royalty share and are calculated using currently enacted royalty regulations.

The Syncrude net profits interest payment to the Province of Alberta is based on "deemed net profits", therefore, estimates of net reserves entail assumptions as to future crude oil prices and plant operating costs. Reserves data do not include the reserves contained in the oil sands other than those attributable to CanadianOxy's share in the Syncrude Project.

Reserves set forth are CanadianOxy's net reserves, after royalties, and are derived from estimates prepared or audited by independent engineers. Oil reserves are in millions of barrels and natural gas is in billions of cubic feet.

	TOTAL			INTERNATIONAL					NORTH AMERICA				
				Yemen (1)	North Sea		South America (2)	Other	United States		Canada		
	Oil	Gas	Synthetic Crude Oil	Oil	Oil	Gas	Oil	Oil	Oil	Gas	Oil	Gas	Synthetic Crude Oil
Proved Developed and Undeveloped Reserves:													
DECEMBER 31, 1993	214.8	611	111.2	164.6	0.7	195	20.5	–	14.4	117	14.6	299	111.2
Revisions of Previous Estimates	(1.7)	(1)	7.9	(5.3)	(0.1)	(29)	(5.3)	–	3.0	7	6.0	21	7.9
Purchases of Reserves in Place (3)	0.2	13	–	–	–	–	–	–	–	–	0.2	13	–
Sales of Reserves in Place (4)	(0.5)	(30)	–	–	–	–	–	–	(0.1)	–	(0.4)	(30)	–
Extensions and Discoveries (5)	34.0	22	32.6	23.1	–	–	3.8	4.0	1.7	4	1.4	18	32.6
Production	(36.9)	(76)	(4.7)	(28.8)	(0.1)	(14)	(1.2)	–	(3.4)	(20)	(3.4)	(42)	(4.7)
DECEMBER 31, 1994	209.9	539	147.0	153.6	0.5	152	17.8	4.0	15.6	108	18.4	279	147.0
Revisions of Previous Estimates	17.2	47	–	11.1	–	(11)	(2.3)	–	1.1	3	7.3	55	–
Purchases of Reserves in Place (6)	7.5	20	–	–	–	–	–	–	2.1	19	5.4	1	–
Sales of Reserves in Place (7)	(3.8)	(41)	–	–	–	–	–	–	(0.3)	(13)	(3.5)	(28)	–
Extensions and Discoveries (8)	3.8	32	18.6	–	–	3	0.3	–	2.3	19	1.2	10	18.6
Production	(41.7)	(72)	(5.0)	(33.2)	–	(13)	(1.3)	–	(3.5)	(16)	(3.7)	(43)	(5.0)
DECEMBER 31, 1995	192.9	525	160.6	131.5	0.5	131	14.5	4.0	17.3	120	25.1	274	160.6
Revisions of Previous Estimates	**23.6**	**(4)**	**–**	**12.1**	**(0.1)**	**(17)**	**(3.9)**	**–**	**3.5**	**(4)**	**12.0**	**17**	**–**
Purchases of Reserves in Place (9)	**1.0**	**59**	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**45**	**0.7**	**14**	**–**
Sales of Reserves in Place (10)	**(1.8)**	**(28)**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(4)**	**(1.6)**	**(24)**	**–**
Extensions and Discoveries	**4.7**	**51**	**–**	**–**	**–**	**–**	**–**	**–**	**0.5**	**25**	**4.2**	**26**	**–**
Production	**(43.4)**	**(83)**	**(4.3)**	**(33.9)**	**(0.1)**	**(13)**	**(1.2)**	**–**	**(4.1)**	**(24)**	**(4.1)**	**(46)**	**(4.3)**
DECEMBER 31, 1996	**177.0**	**520**	**156.3**	**109.7**	**0.3**	**101**	**9.4**	**4.0**	**17.3**	**158**	**36.3**	**261**	**156.3**
Proved Developed Reserves:													
DECEMBER 31, 1994	182.0	474	147.0	143.7	0.5	128	6.1	–	13.4	90	18.3	256	147.0
DECEMBER 31, 1995	157.2	457	151.2	106.7	0.5	104	9.6	–	15.6	101	24.8	252	151.2
DECEMBER 31, 1996	**146.2**	**458**	**156.3**	**87.1**	**0.3**	**85**	**7.3**	**–**	**15.8**	**140**	**35.7**	**233**	**156.3**

Notes:

(1) Up to 40 per cent of the crude oil reserves in Yemen are reserved for the recovery of costs incurred or to be incurred by CanadianOxy on behalf of CanadianOxy and the Government of Yemen. The remaining reserves are shared between CanadianOxy and the Government of Yemen based on the level of production with CanadianOxy's interest ranging between 20 per cent and 33.3 per cent and with the Government of Yemen's interest varying between 66.7 per cent and 80 per cent. The interest taken by the Government of Yemen includes satisfaction of all income taxes payable in Yemen.

(2) Represents reserves in Ecuador for which CanadianOxy is compensated pursuant to a risk service contract.

(3) Purchases of reserves in place in 1994 consist of an exchange of properties and a property acquisition in Canada.

(4) Sales of reserves in place in 1994 consist of an exchange of properties and property dispositions in Canada.

(5) Extensions and discoveries for synthetic crude oil represent an increase in recoverable reserves arising from the approval to increase the licensed annual throughput of the Syncrude Project and the extension of the production permit from 2018 to 2025.

(6) Purchases of reserves in place in 1995 consist of the Eugene Island acquisition in the Gulf of Mexico and exchanges of properties in Canada.

(7) Sales of reserves in place in 1995 consist of an exchange of properties and property dispositions in Canada and the United States.

(8) Extensions and discoveries for synthetic crude oil represent an increase in recoverable reserves arising from the approval to proceed with new lease development.

(9) Purchases of reserves in place in 1996 consist of the Vermilion acquisition in the Gulf of Mexico and property acquisitions in Canada.

(10) Sales of reserves in place in 1996 consist of property dispositions in Canada and the United States.

B. CAPITALIZED COSTS

(millions)	Proved Properties	Unproved Properties	Accumulated Depreciation, Depletion and Amortization	Capitalized Costs
DECEMBER 31, 1996				
International				
Yemen	$ 1,123	$ –	$ 692	$ 431
North Sea	366	–	124	242
South America	40	–	10	30
Other	5	51	24	32
	1,534	51	850	735
North America				
United States	706	10	363	353
Canada	623	41	325	339
Alternate Fuels (Synthetic Crude Oil)	298	5	97	206
	1,627	56	785	898
Total	$ 3,161	$ 107	$ 1,635	$ 1,633
DECEMBER 31, 1995				
International				
Yemen	$ 965	$ –	$ 473	$ 492
North Sea	323	–	87	236
South America	189	–	163	26
Other	5	30	12	23
	1,482	30	735	777
North America				
United States	772	5	465	312
Canada	547	28	297	278
Alternate Fuels (Synthetic Crude Oil)	286	4	88	202
	1,605	37	850	792
Total	$ 3,087	$ 67	$ 1,585	$ 1,569
DECEMBER 31, 1994				
International				
Yemen	$ 926	$ –	$ 235	$ 691
North Sea	318	–	61	257
South America	191	–	164	27
Other	2	26	12	16
	1,437	26	472	991
North America				
United States	735	2	473	264
Canada	548	10	301	257
Alternate Fuels (Synthetic Crude Oil)	279	7	91	195
	1,562	19	865	716
Total	$ 2,999	$ 45	$ 1,337	$ 1,707

C. COSTS INCURRED

	TOTAL		INTERNATIONAL				NORTH AMERICA		
			Oil and Gas				Oil and Gas		
	Oil and Gas	Alternate Fuels	Yemen	North Sea	South America	Other	United States	Canada	Alternate Fuels
(millions)									
YEAR ENDED DECEMBER 31, 1996									
Property Acquisition Costs									
Proved	$ 86	$ –	$ –	$ –	$ –	$ –	$ 66	$ 20	$ –
Unproved	20	1	–	–	–	–	5	15	1
Exploration Costs	146	–	–	25	7	44	30	40	–
Development Costs	324	15	156	9	5	16	60	78	15
	$ 576	$ 16	$ 156	$ 34	$ 12	$ 60	$ 161	$ 153	$ 16
YEAR ENDED DECEMBER 31, 1995									
Property Acquisition Costs									
Proved	$ 80	$ –	$ –	$ –	$ –	$ –	$ 61	$ 19	$ –
Unproved	23	4	–	–	–	–	8	15	4
Exploration Costs	73	–	16	8	3	20	15	11	–
Development Costs	178	11	51	16	4	8	46	53	11
	$ 354	$ 15	$ 67	$ 24	$ 7	$ 28	$ 130	$ 98	$ 15
YEAR ENDED DECEMBER 31, 1994									
Property Acquisition Costs									
Proved	$ 5	$ –	$ –	$ –	$ –	$ –	$ –	$ 5	$ –
Unproved	14	–	–	–	–	8	1	5	–
Exploration Costs	58	–	14	–	–	25	15	4	–
Development Costs	173	10	71	2	8	6	48	38	10
	$ 250	$ 10	$ 85	$ 2	$ 8	$ 39	$ 64	$ 52	$ 10

D. RESULTS OF OPERATIONS FOR PRODUCING ACTIVITIES

(millions)	TOTAL Oil and Gas	TOTAL Alternate Fuels	INTERNATIONAL Oil and Gas Yemen	INTERNATIONAL Oil and Gas North Sea	INTERNATIONAL Oil and Gas South America	INTERNATIONAL Oil and Gas Other	NORTH AMERICA Oil and Gas United States	NORTH AMERICA Oil and Gas Canada	NORTH AMERICA Alternate Fuels
YEAR ENDED DECEMBER 31, 1996									
Net Sales	$ 980	$ 127	$ 522	$ 60	$ 21	$ –	$ 214	$ 163	$ 127
Production Costs	167	74	38	14	10	–	43	62	74
Exploration Expense	119	–	–	25	5	38	27	24	–
Depreciation, Depletion and Amortization	398	11	212	27	3	12	87	57	11
Other Expense (Income)	3	3	4	(1)	(1)	9	1	(9)	3
	293	39	268	(5)	4	(59)	56	29	39
Income Tax Expense (Recovery)	128	12	107	–	2	(19)	20	18	12
Results of Operations	$ 165	$ 27	$ 161	$ (5)	$ 2	$ (40)	$ 36	$ 11	$ 27
YEAR ENDED DECEMBER 31, 1995									
Net Sales	$ 836	$ 111	$ 499	$ 59	$ 23	$ –	$ 127	$ 128	$ 111
Production Costs	154	75	38	13	11	–	33	59	75
Exploration Expense	49	–	3	8	3	19	10	6	–
Depreciation, Depletion and Amortization	389	7	247	28	4	1	50	59	7
Other Expense (Income)	(1)	(6)	5	1	1	11	(9)	(10)	(6)
	245	35	206	9	4	(31)	43	14	35
Income Tax Expense (Recovery)	100	10	79	4	2	(13)	16	12	10
Results of Operations	$ 145	$ 25	$ 127	$ 5	$ 2	$ (18)	$ 27	$ 2	$ 25
YEAR ENDED DECEMBER 31, 1994									
Net Sales	$ 734	$ 104	$ 381	$ 64	$ 22	$ –	$ 129	$ 138	$ 104
Production Costs	160	81	39	16	14	–	32	59	81
Exploration Expense	42	–	3	1	–	19	13	6	–
Depreciation, Depletion and Amortization	321	8	195	25	2	5	51	43	8
Other Expense (Income)	1	(2)	7	1	–	11	4	(22)	(2)
	210	17	137	21	6	(35)	29	52	17
Income Tax Expense (Recovery)	84	6	54	8	3	(13)	10	22	6
Results of Operations	$ 126	$ 11	$ 83	$ 13	$ 3	$ (22)	$ 19	$ 30	$ 11

E. STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS AND CHANGES THEREIN

For purposes of the following disclosures, estimates were made of quantities of proved reserves and the periods during which they are expected to be produced. Future cash flows were computed by applying year end prices to CanadianOxy's share of estimated annual future production from proved conventional oil and gas reserves (excluding synthetic crude oil), net of royalties. Future development and production costs were computed by estimating costs, based on year end prices, to be incurred in producing and further developing the proved reserves. Future income taxes were computed by applying, generally, year end statutory tax rates, after application of existing deductions carried forward, tax credits and allowances, to the estimated pre-tax future net cash flows. The discount was computed by application of a 10 per cent discount factor. The calculations assume the continuation of existing economic, operating and contractual conditions. However, such arbitrary assumptions have not proven to be the case in the past. Other assumptions of equal validity could give rise to substantially different results.

Management believes that this information does not in any way reflect the current economic value of the oil and gas producing properties or the present value of estimated future cash flows since no economic value is attributed to probable and possible reserves, the use of a 10 per cent discount rate is arbitrary, and prices change constantly from year end levels.

	TOTAL	INTERNATIONAL				NORTH AMERICA	
		Yemen	North Sea	South America	Other	United States	Canada
(millions)							
DECEMBER 31, 1996							
Future Cash Inflows	$ 5,756	$ 1,865	$ 537	$ 200	$ 91	$ 1,269	$ 1,794
Future Production and Development Costs	1,631	345	207	126	22	302	629
Future Income Tax	1,297	431	104	15	31	254	462
Future Net Cash Flows	2,828	1,089	226	59	38	713	703
10% Discount Factor	719	199	60	18	10	171	261
Standardized Measure	$ 2,109	$ 890	$ 166	$ 41	$ 28	$ 542	$ 442
DECEMBER 31, 1995							
Future Cash Inflows	$ 4,844	$ 2,054	$ 621	$ 236	$ 71	$ 844	$ 1,018
Future Production and Development Costs	1,741	478	245	171	20	272	555
Future Income Tax	830	401	117	9	12	132	159
Future Net Cash Flows	2,273	1,175	259	56	39	440	304
10% Discount Factor	586	271	93	17	14	94	97
Standardized Measure	$ 1,687	$ 904	$ 166	$ 39	$ 25	$ 346	$ 207
DECEMBER 31, 1994							
Future Cash Inflows	$ 4,649	$ 2,211	$ 640	$ 279	$ 68	$ 610	$ 841
Future Production and Development Costs	1,676	506	217	214	19	248	472
Future Income Tax	699	397	113	9	12	63	105
Future Net Cash Flows	2,274	1,308	310	56	37	299	264
10% Discount Factor	610	319	107	24	14	70	76
Standardized Measure	$ 1,664	$ 989	$ 203	$ 32	$ 23	$ 229	$ 188

Changes in the Standardized Measure of Discounted Future Net Cash Flows

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	1996	1995	1994
(millions)			
Beginning of Year	$ 1,687	$ 1,664	$ 1,564
Sales and Transfers of Oil and Gas Produced, Net of Production Costs	(702)	(607)	(510)
Changes in Estimated Future Development Costs	(83)	(146)	(137)
Net Changes in Prices and Production Costs Related to Future Production	542	156	158
Extensions, Discoveries and Improved Recovery, Less Related Costs	126	103	279
Development Costs Incurred during the Period which Reduced Future Development Costs	206	178	152
Revisions of Previous Quantity Estimates	343	197	(1)
Accretion of Discount	230	217	203
Purchases of Reserves in Place	151	111	11
Sales of Reserves in Place	(63)	(82)	(26)
Net Change in Income Taxes	(328)	(104)	(29)
End of Year	$ 2,109	$ 1,687	$ 1,664

PRODUCTION HIGHLIGHTS (Unaudited)

	1996		1995		1994	
	Gross	Net	Gross	Net	Gross	Net
Crude Oil and Condensate (1)						
(thousand barrels per day)						
International						
Yemen (2)	92.1	92.1	90.3	90.3	78.1	78.1
South America	3.6	3.6	4.5	4.5	4.3	4.3
North Sea	0.2	0.2	0.2	0.2	0.2	0.2
North America						
United States	13.4	11.1	11.7	9.7	11.2	9.3
Canada	12.5	10.1	10.9	8.6	10.0	8.2
Alternate Fuels (3)	14.5	11.8	14.6	12.8	13.8	13.2
	136.3	128.9	132.2	126.1	117.6	113.3
Natural Gas (1)						
(million cubic feet per day)						
International						
North Sea	36.6	36.6	36.4	36.4	43.4	43.4
North America						
United States	78.4	64.3	53.7	43.6	66.4	53.4
Canada (4)	128.7	107.5	132.2	112.9	131.6	107.7
	243.7	208.4	222.3	192.9	241.4	204.5
Natural Gas Liquids (1)						
(thousand barrels per day)						
North America						
Canada	1.3	1.1	1.5	1.3	1.2	1.0
Sulphur Sales (1)						
(long tons per day)						
North America						
Canada	406	350	413	365	379	359
Alternate Fuels	–	–	–	–	–	–
	406	350	413	365	379	359

Notes:

(1) Gross and net refer to production before and after royalties, respectively.

(2) Yemen's production volumes differ from sales volumes due to inventory movements.

(3) In lieu of royalties, the Province of Alberta has elected to receive a net profits interest in the deemed net profits of the Syncrude Project.

(4) Canadian natural gas production volumes differ from sales volumes due to natural gas storage movements.

AVERAGE SALES PRICES RECEIVED FOR CRUDE OIL AND NATURAL GAS (Unaudited)

	1996	1995	1994
Crude Oil, Condensate and Natural Gas Liquids (1)			
(dollars per barrel)			
West Texas Intermediate Average (U.S.$)	**$ 22.02**	$ 18.40	$ 17.18
International			
Yemen (1)	**$ 27.42**	$ 22.99	$ 20.16
Ecuador (2)	**16.06**	13.86	13.98
Peru (2)	**16.86**	15.75	14.24
North America			
United States	**$ 29.43**	$ 23.91	$ 21.35
Canada	**24.44**	19.68	17.70
Synthetic Crude Oil (1)	**29.44**	23.91	21.72
Natural Gas (1)			
(dollars per thousand cubic feet)			
International			
North Sea	**$ 4.61**	$ 4.47	$ 4.33
North America			
United States	**$ 4.04**	$ 2.67	$ 2.92
Canada	**1.56**	1.18	1.89

Notes:

(1) The average sales price is before deducting royalties and certain other amounts deducted in determining net sales. These other amounts represent the non-tax component of the Government of Yemen's "Deemed Interest" as described in Note 1 to the Consolidated Financial Statements, United Kingdom petroleum revenue tax, and the net profits interest payment to the Province of Alberta pertaining to the sale of synthetic crude oil.

(2) The average sales price represents the service fee per barrel received by the Company pursuant to a risk service contract.

OIL AND GAS PROVED AND PROBABLE RESERVES (Unaudited)

for the year ended December 31, 1996	PROVED (1)		PROBABLE (2)		TOTAL	
	Gross	Net	Gross	Net	Gross	Net
Crude Oil, Condensate and Natural Gas Liquids (3)						
(million barrels)						
International						
Yemen	109.7	109.7	96.6	96.6	206.3	206.3
North Sea	0.3	0.3	0.4	0.4	0.7	0.7
South America	9.4	9.4	1.2	1.2	10.6	10.6
Other	4.1	4.0	82.3	77.4	86.4	81.4
North America						
United States	20.8	17.3	6.2	5.3	27.0	22.6
Canada	42.3	36.3	15.8	13.3	58.1	49.6
Alternate Fuels	173.8	156.3	18.0	13.8	191.8	170.1
	360.4	333.3	220.5	208.0	580.9	541.3
Natural Gas (3)						
(billion cubic feet)						
International						
North Sea	101	101	46	46	147	147
North America						
United States	193	158	56	46	249	204
Canada	323	261	105	96	428	357
	617	520	207	188	824	708
Sulphur (3)						
(million long tons)						
North America						
Canada	1.7	1.5	0.3	0.2	2.0	1.7
Alternate Fuels	1.2	1.1	0.1	0.1	1.3	1.2
	2.9	2.6	0.4	0.3	3.3	2.9

Notes:

(1) The proved reserves are CanadianOxy's share of reserves using current pricing and royalty regulation assumptions in effect at year end.

(2) Probable reserves are unrisked.

(3) Gross and net refer to reserves before and after royalties, respectively.

(4) Proved and probable reserves are derived from estimates prepared or audited by independent engineers.

FIVE YEAR FINANCIAL REVIEW (Unaudited)

	1996	1995	1994	1993	1992
(millions of dollars except per share data)					
Revenues					
Net Sales					
International					
Yemen	$ 522	$ 499	$ 381	$ 67	$ –
North Sea	60	59	64	36	42
South America	21	23	22	14	6
	603	581	467	117	48
North America					
United States	214	127	129	125	99
Canada	163	128	138	120	116
Alternate Fuels	127	111	104	99	110
	504	366	371	344	325
Chemicals	255	233	177	164	140
	1,362	1,180	1,015	625	513
Gain on Disposition of Assets	18	23	28	6	7
Interest and Other Income	18	25	14	10	37
Total Revenues	$ 1,398	$ 1,228	$ 1,057	$ 641	$ 557
Net Income					
Operating Profit (Loss)					
International					
Yemen	$ 268	$ 206	$ 137	$ 15	$ (7)
North Sea	(5)	9	21	20	15
South America	4	4	6	(7)	(4)
Other	(59)	(31)	(35)	(19)	(17)
	208	188	129	9	(13)
North America					
United States	56	43	29	34	36
Canada	29	14	52	21	7
Alternate Fuels	39	35	17	7	18
	124	92	98	62	61
Chemicals	66	48	28	14	(3)
	398	328	255	85	45
Corporate Expenses and Interest	79	88	94	68	29
Income Tax Expense (Recovery)	129	99	65	10	(1)
Net Income	$ 190	$ 141	$ 96	$ 7	$ 17
Net Income Per Common Share	$ 1.40	$ 1.05	$ 0.72	$ 0.05	$ 0.13

FIVE YEAR FINANCIAL REVIEW (Unaudited)

	1996	1995	1994	1993	1992
(millions of dollars except per share data)					
Funds Flow from Operations (1)					
International					
Yemen	$ 480	$ 458	$ 337	$ 46	$ (2)
North Sea	48	47	51	24	23
South America	11	10	9	6	–
Other	(8)	(11)	(11)	(3)	(5)
	531	504	386	73	16
North America					
United States	170	100	95	89	76
Canada	105	70	83	68	57
Alternate Fuels	51	35	28	19	30
	326	205	206	176	163
Chemicals	90	74	42	31	17
Corporate Expenses and Interest	(62)	(76)	(84)	(58)	(22)
Income Tax Expense	(119)	(77)	(57)	(10)	(11)
	$ 766	$ 630	$ 493	$ 212	$ 163
Financial Position					
Working Capital	$ 130	$ 77	$ 85	$ (50)	$ 205
Property, Plant and Equipment, Net	$ 1,955	$ 1,882	$ 1,945	$ 2,006	$1,531
Total Assets	$ 2,404	$ 2,251	$ 2,271	$ 2,262	$2,045
Net Debt (2)	$ 463	$ 630	$ 860	$ 1,020	$ 614
Long-Term Debt	$ 572	$ 674	$ 919	$ 1,036	$ 820
Shareholders' Equity	$ 1,123	$ 930	$ 825	$ 721	$ 699
Additions to Property, Plant and Equipment					
International	$ 262	$ 126	$ 134	$ 529	$ 339
North America					
Oil and Gas	314	228	116	80	70
Alternate Fuels	16	15	10	8	6
Chemicals	36	102	7	7	5
Corporate	4	3	2	8	2
Total	632	474	269	632	422
Less: Exploration Expense	119	49	42	29	28
Capital Additions	$ 513	$ 425	$ 227	$ 603	$ 394
Shares and Dividends					
Common Shares Outstanding (millions)	136.2	135.0	134.3	134.1	133.9
Number of Common Shareholders	1,235	1,274	1,361	1,377	1,462
Dividends Declared per Common Share	$ 0.30	$ 0.225	$ 0.20	$ 0.20	$ 0.20

Notes:

(1) Defined to be the sum of "Income Before Income Taxes, Charges and Credits to Income Not Involving Cash and Exploration Expense".

(2) Defined to be the sum of "Long-Term Debt, Current Portion of Long-Term Debt and Short-Term Borrowings less Cash and Short-Term Investments".

(3) Also see Note 14 to the Consolidated Financial Statements.

FIVE YEAR OPERATING REVIEW (Unaudited)

	1996	1995	1994	1993	1992
(millions)					
International					
Production					
Natural Gas (Mmcf)	**13,391**	13,298	15,839	9,330	6,081
Crude Oil, Condensate and Natural Gas Liquids (Mbbls)	**35,095**	34,675	30,146	7,833	1,372
Proved Reserves					
Natural Gas (Mmcf)	**101,220**	130,860	152,193	195,192	204,408
Crude Oil, Condensate and Natural Gas Liquids (Mbbls)	**123,443**	150,611	175,979	185,875	163,845
Probable Reserves					
Natural Gas (Mmcf)	**45,610**	77,909	95,384	65,734	59,538
Crude Oil, Condensate and Natural Gas Liquids (Mbbls)	**180,493**	159,288	178,763	131,870	103,509
Land Holdings (thousand acres)					
Gross Acres	**17,442**	17,636	14,983	16,858	11,993
Net Acres	**7,797**	7,005	7,792	8,277	5,325
North America					
Production					
Natural Gas (Mmcf)	**75,784**	67,851	72,274	72,761	65,125
Crude Oil, Condensate and Natural Gas Liquids (Mbbls)	**9,945**	8,810	8,180	7,198	6,695
Synthetic Crude Oil (Mbbls)	**5,311**	5,341	5,045	4,842	4,729
Proved Reserves					
Natural Gas (Mmcf)	**515,828**	485,477	478,185	519,975	505,798
Crude Oil, Condensate and Natural Gas Liquids (Mbbls)	**63,173**	49,944	41,698	34,970	40,096
Synthetic Crude Oil (Mbbls)	**173,800**	172,514	157,855	127,900	133,700
Probable Reserves					
Natural Gas (Mmcf)	**160,870**	137,968	101,653	138,264	161,050
Crude Oil, Condensate and Natural Gas Liquids (Mbbls)	**22,030**	11,462	11,630	17,548	14,597
Synthetic Crude Oil (Mbbls)	**18,000**	1,845	21,845	–	–
Land Holdings (thousand acres)					
Oil and Gas					
Gross Acres	**3,104**	2,812	2,351	2,511	2,697
Net Acres	**1,477**	1,195	832	852	970
Alternate Fuels					
Gross Acres	**743**	877	888	1,065	1,074
Net Acres	**220**	254	263	419	440
Chemicals					
Production (thousand short tons)					
Sodium chlorate	**349**	278	225	215	184
Chlor-alkali	**325**	334	321	329	263

DIRECTORS

JOHN E. FEICK (3,6)
President and Chief Executive Officer of 3-D Reclamation Inc., Calgary, Alberta

BRAM GARBER (1,6)
Chairman of the Board and a director of Peerless Carpet Corporation, Montreal, Quebec

J. HOWARD HAWKE (1,2,3,4,5,6)
Director of Jannock Limited, Fishery Products International Inc. and Brick Brewing Co. Limited, Toronto, Ontario

DAVID A. HENTSCHEL
President and Chief Executive Officer of Canadian Occidental Petroleum Ltd., Calgary, Alberta

DR. RAY R. IRANI (1,4,5)
Chairman and Chief Executive Officer and a director of Occidental Petroleum Corporation, Los Angeles, California

KEVIN J. JENKINS
President and Chief Executive Officer and a director of The Westaim Corporation, Calgary, Alberta

DR. DALE R. LAURANCE (1,2,4,5)
President and Senior Operating Officer and a director of Occidental Petroleum Corporation, Los Angeles, California

JOHN A. RHIND (1,2,3,5)
Director of Midland Walwyn Inc. and Economic Investment Trust Ltd., Toronto, Ontario

JOHN M. ROBERTSON, Q.C. (3,4,5)
Counsel to Milner Fenerty, Barristers and Solicitors, Calgary, Alberta

FRANCIS M. SAVILLE, Q.C. (2,6)
Senior Partner of Milner Fenerty, Barristers and Solicitors, Calgary, Alberta

JOHN M. WILLSON
President and Chief Executive Officer of Placer Dome Inc., Vancouver, British Columbia

GORDON R. WITTMAN (3,4,6)
Former President, Chief Operating Officer and a director of Dupont Canada Inc., Mississauga, Ontario

OFFICERS

DR. RAY R. IRANI
Chairman of the Board

DAVID A. HENTSCHEL
President and Chief Executive Officer

VICTOR J. ZALESCHUK
Senior Vice-President, Finance and Chief Financial Officer

WESLEY M. DENSMORE
Senior Vice-President, Exploration and Production, International

CHARLES W. FISCHER
Senior Vice-President, Exploration and Production, North America

THOMAS A. SUGALSKI
Senior Vice-President, Chemicals

JOHN B. MCWILLIAMS
Senior Vice-President, General Counsel and Secretary

H. PETER ARNOLD
Vice-President, Human Resources and Corporate Services

KEVIN J. REINHART
Controller

GARY J. BEAGLE
Treasurer

LYNDA J. ELLIOTT
Assistant Secretary

RICHARD L. REESON
Assistant Secretary

(1) Member of the Executive Committee
(2) Member of the Finance Committee
(3) Member of the Audit and Conduct Review Committee
(4) Member of the Compensation Committee
(5) Member of the Corporate Governance and Nominating Committee
(6) Member of the Environment, Health and Safety Committee

corporate information

HEAD OFFICE

1500, 635 - 8th Avenue S.W. Calgary, Alberta
Canada T2P 3Z1 (403) 234-6700
Internet: www.cdnoxy.com

COMMON SHARES

TRANSFER AGENTS AND REGISTRARS

The R-M Trust Company, Calgary, Toronto, Montreal, Regina, Winnipeg, Vancouver and Halifax

ChaseMellon Investor Services, New York, NY

LISTED – SYMBOL "CXY"

The Toronto Stock Exchange
Montreal Exchange
American Stock Exchange

DIVIDEND REINVESTMENT PLAN

A copy of the offering circular (and for United States residents, a prospectus) and authorization form may be obtained by calling The R-M Trust Company at 1-800-387-0825 or via the Internet at www.rmtrust.ca

RETRACTABLE DEBENTURES DUE 1999 (EURODOLLAR OFFERING)

TRUSTEE: Montreal Trust Company of Canada, Calgary, Alberta

LISTED: London Stock Exchange

AUDITORS

Arthur Andersen & Co., Calgary, Alberta

TRADEMARKS

The Company holds the "CanadianOxy" and "CXY" trademarks and licenses their use to its subsidiary entities.

FORM 10-K

A copy of the 1996 Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission is available without charge, upon written request to the Secretary.

METRIC CONVERSION TABLE

TO CONVERT	TO	X BY
cubic metres of oil or liquids	barrels	6.29
cubic metres of natural gas	cubic feet	35.49
tonnes	long tons	0.98
tonnes	short tons	1.10
metres	feet	3.28
kilometres	miles	0.62
hectares	acres	2.47
kilograms	pounds	2.21

OPERATING ENTITIES

Canadian Occidental Petroleum Yemen
Canadian Petroleum Field Services Nigeria Limited
Canadian Petroleum Financial Services Corporation
Canadian Petroleum Indonesia Ltd.
Canadian Petroleum International Limited
Canadian Petroleum International Marketing Limited
Canadian Petroleum International Professional Resources Limited
Canadian Petroleum International Resources Ltd.
Canadian Petroleum Offshore International Ltd.
Canadian Petroleum UK Limited
Canadian Petroleum Vietnam Ltd.
Canadian Petroleum Yemen Operations Company Ltd.
CanadianOxy Holdings Inc.
CanadianOxy Marketing (U.S.A.) Inc.
CXY Chemicals Canada Limited Partnership
CXY Chemicals Canada Ltd.
CXY Chemicals U.S.A.
CXY Chemicals U.S.A. Inc.
CXY Energy Holdings Inc.
CXY Energy Inc.
CXY Energy Offshore Inc.
Turan Petroleum Cyprus Limited
Volant Energy
Volant Energy (U.S.A.)

ANNUAL GENERAL AND SPECIAL MEETING

The Annual General and Special Meeting of the Shareholders will be held at the Palliser Hotel in Calgary, Alberta, Canada on May 14, 1997 at 11:00 a.m.

CANADIAN OXY